STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Burbank Airport Marriott Hotel
2500 Hollywood Way
Burbank, California

Wednesday, May 12, 2010
10:00 a.m.

Minutes approved by the Board of Directors at its meeting held: July 13, 2010

Attest:

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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APPEARANCES

Board of Directors Present

PETER N. CAREY
(Acting Board Chair)
President/CEO
Self-Help Enterprises

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

LYNN L. JACOBS
Director
Department of Housing and Community Development
State of California

BARBARA MACRI-ORTIZ
Attorney at Law
Law Office of Barbara Macri-Ortiz

HEATHER PETERS
for DALE E. BONNER, Secretary
Business, Transportation, and Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith
A Professional Corporation

A P P E A R A N C E S

Board of Directors Present
continued

L. STEVEN SPEARS
Executive Director
California Housing Finance Agency
State of California

BROOKS TAYLOR
For CATHERINE COX, Acting Director
Office of Planning & Research
State of California

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Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

GARY M. BRAUNSTEIN
Special Advisor to Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

CHARLES K. McMANUS
Director of Mortgage Insurance Services

A P P E A R A N C E S

Participating CalHFA Staff:
continued

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation Division

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BE IT REMEMBERED that on Wednesday, May 12, 2010, commencing at the hour of 10:02 a.m., at the Burbank Airport Marriott Hotel and Convention Center, 2500 Hollywood Way, Burbank, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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(The following proceedings commenced with Mr. Hudson, Mr. Hunter, and Ms. Peters absent from the hearing room.)

CHAIR CAREY: With that, welcome to the May 12th meeting of the Board of Directors of the Housing Finance Agency.

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Item 1. Roll Call

CHAIR CAREY: Our first order of business is roll call.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner?

(No response.)

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hudson?

(No response.)

MS. OJIMA: Mr. Hunter?

(No response.)

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes. Here.

MS. OJIMA: Ms. Carroll for Mr. Lockyer?

MS. CARROLL: Here.

MS. OJIMA: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Here.

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Mr. Smith?

MR. SMITH: Here.

MS. OJIMA: Mr. Taylor for Ms. Cox?

MR. TAYLOR: Here.

MS. OJIMA: Ms. Matosantos?

(No response.)

MS. OJIMA: Mr. Spears?

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey?

THE WITNESS: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Thank you, JoJo.

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Item 2. Approval of Minutes of the March 25,2010, and March 26, 2010, Board of Directors Meeting

CHAIR CAREY: The next item of business is approval of the minutes for March 25th and 26th.

MS. MACRI-ORTIZ: Moved.

MS. JACOBS: Seconded.

CHAIR CAREY: Moved and seconded.

Any further discussion?

(No response)

CHAIR CAREY: Roll call, please.

MS. OJIMA: Thank you.

Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine.

MR. SHINE: Here -- yes, whatever.

MS. OJIMA: Mr. Smith?

MR. SMITH: I'm here, too. And, yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: The minutes have been approved.

CHAIR CAREY: Thank you.

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Item 3. Chairman/Executive Director comments

CHAIR CAREY: It seems that the first order of business ought to be to recognize our Executive Director, Steven Spears.

(Applause)

CHAIR CAREY: So even though the word "acting" is not there, you'll still have to act like one.

MR. SHINE: He's a good actor.

MR. SPEARS: I promise.

CHAIR CAREY: All right. From what I see on the sidelines, it's been a pretty crazy couple of months. Lots of progress and lots of change.

I would love to hear today that the environment has all settled down; but I don't think that will be the case. So we look forward to discussion and your reports, Steve.

The first thing I'd like to insert in here is to give Mr. Smith a chance to report on behalf of the Audit Committee which met this morning.

(Ms. Peters entered the meeting room.)

MR. SMITH: Thank you, Mr. Chairman.

The Audit Committee met this morning. And I'm glad to tell you that we have an unqualified audit opinion or letter that was given to us. Obviously, there was lots of financial issues that we'll be discussing, I'm assuming, in other portions of this agenda later today. But it was an unqualified opinion.

So thanks to all those that worked hard in putting it together. I know it was a tight time frame to do all you had to do.

Thank you again.

CHAIR CAREY: Any members have any questions for Mr. Smith or the Committee members on the audit of the Mortgage Insurance Fund?

MR. SPEARS: I have one comment, Mr. Chairman.

There was one footnote that had a technical correction needed. So the auditors have taken the financials back. We're not going to distribute them to anybody. They're going to make that technical correction, and then rerelease the financials.

CHAIR CAREY: Okay, with that, I'll turn it over to Mr. Spears.

MR. SPEARS: Thank you, Mr. Chairman.

With regard to the appointment, I want to say, thank you to all for support over the last 15 or 16 months, whatever it was. I think that's some kind of a record, I was told by some folks in the Governor's Office, for acting director.

It's been a very challenging period. We've had some ups and downs. And we have a very strong team of folks in the senior staff that have been helping with this effort. And I just want to say "thank you" to them as well.

So with that, we'll move into the --

AUDIO TECHNICIAN: That's somebody's cell phone. Somebody's cell phone is going off.

MS. JACOBS: Somebody's cell phone?

Okay, fess up.

MR. SPEARS: We'll continue. All right.

A couple of housekeeping matters.

You have in front of you two sets of slides. If you would take the operating budget set, if you haven't already, and place those behind, let's see, Tab 6. It's agenda Item 6.

Just drop the slides in there, and we'll get to those slides a bit later.

It might help you keep everything organized around your area.

Then the other housekeeping item is, ordinarily, at the May Board meeting, that you receive in your board materials a written narrative of the business plan.

After the March discussion and after review of the current financial situation and the ups and downs that the chairman just spoke about, we felt it was probably best if we put in a detailed PowerPoint presentation that would give you some detail about the business plan, have the discussion, write the narrative after this meeting rather than before.

And I think that that will work out well. So that's why you get slides instead of a narrative in the board binder.

What we did, though, was prepare another presentation that some of the slides are slightly different in the sense that they are simplified -- they're not as busy -- consolidated, that sort of thing -- for presentation up on the screen.

If you want to keep these separate, that would be fine; or you can use the slides that came with your board material. They'll generally follow along -- I think you'll be able to follow along nicely with the discussion as it goes along. But some of the slides that you see won't be exactly the way they appear in the Board material. We're just trying to make it more appealing to the eye on the screen.

With that, I want to give you a quick update on the Hardest Hit funds.

And if I could ask Di, if she's -- did she hide from me in the back there -- to come up.

We didn't agendize this. And the reason we didn't was because Treasury hasn't approved anything yet.

We did submit a detailed proposal to Treasury. I sent you guys all a copy, I believe, when it came out, when it was distributed to Treasury on, I believe, it was April the 16th was the deadline.

MS. RICHARDSON: Correct.

MR. SPEARS: They have since held several calls with all of the states to go over various aspects of the proposals that they did receive.

And then we had a call with Treasury that was just for us.

And this is how it went:

First of all, they sent questions ahead of time. And we thought they were fairly routine. Di prepared answers to the questions for their team, sent them back.

And then we had a phone call, and it was, "Well, do you have any questions for us?"

"Well, not really. Well, do you have any questions for us?"

And that was about it.

I'll tell you this: That the proposal that we turned in is being used by some folks in Treasury as the example to follow for all the rest of the states.

Di has done an amazing job. The team that she has is Jean Mills and Linn Warren, Scott Bie is the project manager, and we have a research individual, Robert Sessions, who is helping. And that's on her project team.

And then the steering committee is Chuck's on that, Bruce is on that, of course, Di, me.

And who else?

Rhonda -- and Tom.

MS. RICHARDSON: And Tom.

MR. SPEARS: And that's sort of the high-level steering committee.

But the proposal that went out was, I have been told by Treasury people, the most professional, the most thorough, the most researched. It was the top-notch proposal that went in.

So thanks to Di.

And I don't mind if I ask for a round of applause for her.

(Applause)

MS. RICHARDSON: Thank you.

MR. SPEARS: It's a four-part program. I'll let you just give a brief update of where we are with all these folks, and talks with banks and et cetera.

MS. RICHARDSON: Right.

Well, thank you. That was very nice, very unexpected, but very welcome. Thank you.

You know, the announcement came from Treasury on March 5th, and we had to have a proposal in on April 16th. So I don't know if you -- there was an article in one of the papers that said there were four of us locked in a room somewhere. And that was pretty close. I mean, it was hot and -- but we were churning through it.

We also started having conversations right away with servicers, to find out what would work for them because we didn't want to create another program that's going to sit on the shelf and the money's not going to go out.

(Mr. Hunter entered the meeting room.)

MS. RICHARDSON: We met with advocates. We met with counselors. We met with local governments. We did three forums. And I'm sorry if this is repetitive of the last meeting. I missed that one. But we got really great feedback all along. And we heard a lot of the same things, which was helpful.

So the proposal that we put together -- oh, and I'll just say, as we were working on our proposal, about halfway through -- we had been having conversations with Treasury, and then they amended HAMP right in the middle, and sort of announced some of the things that we had in our proposal.

So we had to sort of take a step back and pull some of those things out because, again, if they were going to do it, why should we?

And, you know, the thing we heard the most clearly from servicers -- you have to remember, we can't mandate anybody to do anything. And they already have signed service agreements with Treasury to do HAMP, and they're going to do HAMP. So if we came out of left field with something really bizarre, that's where it was going to stay.

So we were looking at something that would overlay the HAMP process and make it more effective, you know, find out if there were holes in the process, and why those things weren't working in California, why there were so many NPV fails, things of that nature.

So we did end up proposing four different programs.

And if you haven't seen them -- and I know it's just the most fascinating reading, I know you're dying for it -- Ken's Marketing team put up a great Web site, it's www.KeepYourHome.com. And the proposal -- the initial proposal is on that Web page.

And you can also get there from the front page of the CalHFA Web site, so it's really easy to get to.

But what we did was we -- you know, there was some discussion at the beginning about whether we were going to target certain areas of the state. And as we looked at the different data, every area is challenged, they all have different challenges. And, you know, if you go with this set of data, you're leaving out San Diego; and if you go with this set of data, you're leaving out the Central Valley.

So we decided that, really, the thing that we would concentrate on are the borrowers. They're the ones that need the help. And so it's focused on low- and moderate-income borrowers that have had some kind of economic hardship, and that are either 60 days delinquent or in imminent default, or imminent, it's going to happen.

So the first program that we came up with is called the Unemployment Mortgage Assistance Program. And this was one of them that we announced, and then Treasury came in right in front of us and announced theirs. So the Treasury has announced a program that will help people -- what their program actually does, is allow those payments to be forborne for a number of months.

What we're actually talking about is helping the borrower make those payments for a period of time. So the way that we see that working with HAMP is --

again, they'll use the HAMP benefits first, and it's three to six months, depending on who they're regulated by; and then our program will come in on the back side of that, because we know most people in California that are unemployed don't find another job within three to six months. So they'll get another -- right now, I think our proposal says six months. But, you know, that's something we're discussing with the servicers. They've asked us to look at nine months.

The benefit would be $1,500 per month -- up to $1,500 or 50 percent of the PITI. And there would be a $9,000 cap for a household for that program. So we think that that would get them through for quite a while.

The second program is called the Mortgage Reinstatement Assistance Program, or the MRAP program. And this is a program that we heard from every counselor that we talked to, that there were actually individuals that had fallen behind, they maybe were unemployed, they're reemployed but they've got this arrearage and they can't catch up. So we want to help them, help bring them forward so that either they can sustain a modification or they can pick up their payment and start over again without having to have this chunk recapitalized on the end, which actually ends up raising a lot of their folks' payments.

So that -- we think 20 percent of the funds we've proposed using for that program. And that would be up to $15,000, or 50 percent of the past-due arrearages. And, of course, we're hoping that the servicers or lenders or investors are going to kick in and match that, so that we can bring those borrowers whole.

The third program, which is really the big dog in the fight, is the Principal Reduction Program, or the PRP. And we think that the lion's share of the funds will go to this program. And although several of these programs do work together -- you know, you can get the unemployment assistance, you can have your arrearages brought forward, you can get your principal reduction, mortgage reduction piece -- there's a $50,000 cap on the total amount of assistance for a household. So if you didn't take advantage of the first two, you could get $50,000 right off the bat for your mortgage reduction.

And what our proposal is, is to try to bring people down to 125 percent LTV. There's been a lot of discussion about that, how did we pick that number. And we were really looking for the sweet spot, where our people -- you know, we know that there are programs out there that people can get modified at 125 percent. And we don't want it -- we want to create an incentive for them to want to stay in the home but not, you know, create equity for them unnecessarily because we think that will encourage other people to drop out.

The last program that we have is actually something that we developed after talking to folks in the San Diego area and the Merced area, where they said, "You know, there are just -- there are a lot of people and they're too far gone, they can't recover. And if we can get them out of the house, we've got other buyers lined up, we can turn these neighborhoods around. These folks just need help, you know, transitioning out."

So we developed this Transition Assistance Program. And, again, this is something that we were originally looking at doing something to help pay off the seconds; but the new HAMP guidelines came in and did that, right where we were going to go, so we didn't want to duplicate that.

So what we heard loudly from all the counselors was that the HAMP -- I'm sorry, the HAFA program will provide assistance up to $3,000, which just may not be enough to really get you into a new housing -- or a new sustainable living situation in California. So we're going to take -- we're proposing to take that up to $5,000 to supplement that, so that they can get up to $5,000 to get into some sort of stable living arrangement.

The final piece, which if you read the proposal, is the least defined, is a local innovation fund. And quite frankly -- I think at the last meeting, you had some folks come and talk to you about getting some of the money.

We were flooded with proposals. Everybody had the perfect idea. And in that time frame, we simply did not have the ability to do proper diligence in reviewing those and figuring out what really made sense and what really worked.

And so we've got this -- we've asked to set aside $20 million for this local innovation fund. And we're going to -- I think what we'll end up doing is putting out an RFP, having them submit their proposals, having them do a lot of the same kind of due diligence we had to do in our proposal. And then those have to actually go to Treasury, just like our proposal did, and be approved, and make sure that they're consistent with the EESA statute.

So we anticipate getting that -- we've talked to Treasury a little bit about that. We hope to get that RFP out within the next few weeks, couple weeks. And, you know, that all -- the authorization for Treasury to commit this money expires in October, so all of this has to be done by October.

So we've continued having conversations with servicers. We're continuing to have conversations with Treasury. We're continuing to have conversations with all of the interest groups.

I think, actually, we've done a pretty good job because not everybody is completely happy but not -- you know, but there's something in there for everyone. And everyone would like more, but there's only so much to go around.

MR. SPEARS: One issue that keeps coming up is a lot of the loans that are going to be available for -- or candidates for this program, are owned by Fannie and Freddie. And their regulator, FHFA, really -- they're not -- I think the nicest thing to say is that they're not totally in sync with what Treasury is trying to do. And because FHFA is not part of the Administration and Treasury, they need to work that out. So we're not trying to negotiate that or mediate, but that's going to have to get worked out --

MS. RICHARDSON: Right.

MR. SPEARS: -- for this to be really successful.

MS. RICHARDSON: If we can get that, that's a home run because everybody knows that most of the loans are there.

But we think that if they don't want to play, then, you know, the pressure is on them, that we're going to say they wouldn't play. And we think that there are enough servicers who have enough loans in their own portfolio that we -- I mean, $700 million isn't really that much money that we can get it out and we can get it out effectively.

And the other thing we included in our proposal, which Treasury thought was a great idea, was doing a -- before we kick it off for everyone, we're going to pilot it with our own portfolio to, you know, work out some of the kinks and get a little bit of a jump-start and see how it works.

CHAIR CAREY: Did I hear you say that the money has got to be out by October?

MS. RICHARDSON: Treasury has to commit the funds to us by October.

CHAIR CAREY: Okay.

MS. RICHARDSON: We don't have to have it out. But their authority to encumber the funds, is sort of how I would say it, ends the end of October.

MR. HUGHES: Right. The EESA that I referred to, the Emergency Economic Stabilization Act of 2008, actually authorizes TARP, and that expires in October.

MR. SPEARS: And the question that has come up a couple times, is this $700 million just going to come in one wire to Bruce?

MR. GILBERTSON: Bruce who?

MR. SPEARS: Or did it come --

MS. RICHARDSON: I don't think so, because they have very, very preliminary discussions about a draw schedule. So I'd doubt it, but…

MR. SPEARS: Right. It will be similar, I think, to the HFA initiative from the fall, where the funds would be committed, escrowed, we draw them on a schedule.

MS. RICHARDSON: Right.

Oh, the other piece of this that I forgot to mention is, we really see a very integral piece of this for counselors. And so there will be some funding in here for counselors. We think that they know these people best, they know their situations. They're going to know which ones would qualify for which programs, the unemployment piece. They'll be key on the back end for the Transition Assistance Funds. And we're hoping that if somebody is going to -- they're to the point where they need to take advantage of the transition funds, that instead of just regular homeownership counseling, we can ask them to partake in total debt-management counseling, so they can sort of start turning their lives around.

MR. GUNNING: Diane, the folks that did apply to us, so you're saying you're going to -- you've talked to them --

MS. RICHARDSON: Oh, yes.

MR. GUNNING: Well, we saw here, and I know I've been contacted...

MS. RICHARDSON: Yes.

MR. GUNNING: So you'll tell them to reapply under the RFP program and take a look at?

MS. RICHARDSON: Yes.

MR. GUNNING: They understand the Treasury process as well? Or is that part of the RFP?

MS. RICHARDSON: I'm not sure if they do or not. They should. I know they've had conversations with Treasury, but that will be made clear in the RFP.

And we've actually -- you know, that group has been pretty vocal.

MR. GUNNING: One LA?

MS. RICHARDSON: Very persistent, yes.

So I think we're going to -- we have asked Treasury if we could go ahead and send that proposal in --

MR. GUNNING: Good.

MS. RICHARDSON: -- pre- -- you know, before any of that, just so that if there's a problem, we can let them know sooner than later.

MR. GUNNING: That's smart.

MS. RICHARDSON: You know, One LA sounds great, but they haven't done any loans yet, so it's not something we can point to as a successful program.

MR. GUNNING: In theory?

MS. RICHARDSON: Yes.

MS. JACOBS: Do we know when the Treasury's supposed to approve plans?

MS. RICHARDSON: I'm sorry, I didn't --

MS. JACOBS: When is the Treasury supposed to approve plans?

MS. RICHARDSON: We're expecting it by the end of this month.

MS. JACOBS: Okay, good.

MS. RICHARDSON: And, again, you know, they have told me numerous times that, really, they're simply reviewing it to make sure it's consistent with EESA. They have no intention of really telling us how to use the money or what to do.

But I will tell you, it is sort of interesting because they started out telling us, they didn't want to see something that looked like it was just going to help HAMP because they didn't want it to look like HAMP wasn't successful and we were needing to rescue HAMP.

But now they know there is really no other way to go. So that's the direction they're telling the five new states that have come in.

CHAIR CAREY: Di, I just find myself a little overwhelmed, thinking about the onslaught of potential beneficiaries.

MS. RICHARDSON: Yes.

CHAIR CAREY: How do you see that happening?

MS. RICHARDSON: That's a good question.

We're actually -- that's what we're really looking at now.

MR. SPEARS: This might be a good time to -- sorry to interrupt -- but a good time to remind everybody, these funds are not just for our borrowers. This is a statewide program. The pilot program would be just for our borrowers that we service; but it's going to be statewide, so…

MS. RICHARDSON: Right. I mean --

MS. SPEARS: Hence the term.

MS. RICHARDSON: -- we expect them to come in through the counselors, a great number of them through the servicers, that we'll have the service agreements with.

We're looking at -- we have several proposals for different portals for that now, that we're taking a look at. We're looking at the HOPE NOW portal. We're talking to Springboard. We're talking to a number of different businesses.

I don't think we have the capacity in-house to do this, so this will be something that will be contracted out. I think it will probably be a different call center -- you know, the whole works. But that's something that funds -- you know, it's built into the budget for the funds, so it will pay for itself.

CHAIR CAREY: Other questions?

Ms. Peters?

MS. PETERS: It's not a question.

I just want to let everyone know that I sat in on the internal meeting one day and also sat in on one of the roundtable discussions out in the field. And congratulations, you guys handled a political football and a logistical nightmare and came out shining. So thank you very much.

CHAIR CAREY: Good. Thank you.

MR. SPEARS: Those are the end of my comments.

If we can start the slides, I think we're ready to begin the discussion of the business plan.

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Item 4. Discussion, recommendation, and possible action regarding the adoption of a resolution Approving the Two-Year Business Plan for Fiscal Years 2010/2011 and 2011/2012

[Resolution 10-06]

MR. SPEARS: We have in front of you a business plan for the next two years.

We, again, chose a two-year time frame because of the economic conditions, the condition of the California real-estate market, the uncertainty in the employment markets. And we decided to, again, present a two-year business plan.

The objective is to follow the same five priorities that were canonized by me in the list that we talked about in March, which you'll see in the colorful little chart right after this.

But our current challenges remain a backlog of underperforming single-family loans. It is a very labor-intensive process to deal with these loan delinquencies: Workout plans, loan modifications, foreclosures, the REO inventory, and all the associated losses and all the associated back-office work.

We were talking about this in the senior staff meeting on Monday: A group in Lori's area, in Fiscal Services, are processing thousands of little invoices for repairs of doors, cabinets, new carpet, that are coming in on almost a thousand REO properties that we have. So it goes through the entire organization.

Obviously, these losses are putting pressure on our liquidity; and not everyone in the banking community is all broken out with enthusiasm to provide short-term lines of credit. And that remains a challenge.

And the credit-rating concerns remain a challenge. There is pressure for further downgrades. They're watching how our delinquencies are going to perform over the next year and how our loan losses are going to behave.

The resources and opportunities, we have -- Fannie Mae has offered a program where they will provide the insurance.

We have the New Issue Bond purchase capital of a billion dollars that Treasury has committed and escrowed. And we just need -- we have to draw on it, but remember, we have to go to the private market for a portion of that money.

And we have the $700 million in Hardest Hit funds, which, of course, won't help all of -- it's not dedicated all to our loans but a substantial portion could help our borrowers.

And we have the highest-affordability situation as far as homeownership that we've seen in a very, very long time.

And we have the new tax credit for -- the California tax credit that the Governor just signed in the last couple of weeks for first-time home buyers and for new construction.

So the only real challenge to all this is how the tax-exempt housing bond market is going to work in the future. It can't just work -- we could sell bonds. It's just, it has to work commercially for us and result in a rate that we can offer to borrowers that will be -- that will make sense to them to come to us for a loan.

So let's go to the next slide and -- oh, it doesn't show up quite as colorful.

I call this my "Easter egg" slide. The colors. But it basically has a Survive, Revive, and Thrive -- full credit to Ms. Peters -- time frames.

And here again, I don't know about you, I'm not sure how far I can see with the glasses that I'm wearing today. But I think that we're in survival mode for most of the next -- of the business plan period that we're going to discuss today.

That, again, the focus is going to be the maintaining credit ratings, mitigating loan losses, working off our backlog. We'll do some renewed lending, which Gary will get to a little bit later, and Bob. And we're going to go back and look at old partnerships and see if we can do things new -- discover new ways to do things.

And in the "Revive" mode, it's how much access are we going to give to warehouse lending lines of credit so that we can do more lending down the road. You know, how well is the bond market going to behave? And if that begins to return to normal, the life we saw before, then I think that we can get into "Revive" mode with the old business model.

If that doesn't fix itself, we're going to be looking for a different way to do business and a possibly different role.

"Thriving," obviously, if things were great and we get back into substantial lending volumes, and we've returned to profitability and we have the ability to fund programs internally, like we did before, then we'll be thriving. And I think that's a long ways down the road. 2014, 2015, maybe.

So here again, I don't know if anybody has any comment on my guesstimates there. But I was trying to summarize our March afternoon discussion in a one-slide presentation. And I hope I hit this one on the mark.

All right, next.

A little more detail. Perhaps I can get Bruce to chime in here as well. But I don't -- I think I said this last time, I don't believe that we're going to be able to return to the old volume levels of lending that we had. I don't think we'll see $1.5 billion, $1.7 billion, those record high years, anytime soon. And part of the reason is, we don't really believe that that bond market will return and behave like it did before. We're not going to return to the use of variable-rate debt for obvious reasons. And it will depend on CDLAC allocating appropriate amounts of debt limit. And it will also, in the multifamily area, depend on how the low-income housing tax credit returns or behaves in the future. Right now, that market is still struggling quite a bit.

So, I don't know, Bruce, if you want to chime in about some of these challenges.

MR. GILBERTSON: Well, I think one of the themes in this presentation today is going to be about -- and maybe a way to think of it would be that we see that there's potential clouds on the horizon.

If we don't have a funding source -- you know, tax-exempt housing bond market that produces a borrowing cost sufficiently low for us to lend and compete in the marketplace, what does that mean? And so that's -- you know, that's really in the back of our minds.

I mean, theoretically, we stop and think for a moment of what we're trying to produce on the asset side. We're going to have Fannie Mae, Freddie Mac, or Ginnie Mae security. There's active markets out there for taxable investors to purchase these things.

We ought to be able to create a bond market that would want to pay up for a tax-exempt equivalent. The risks are identical.

And there's people in this state that pay well over 30, 40 percent of their income in taxes, marginal income tax rates. So there should be somebody out there to buy this.

So that's the objective -- I think the last couple of years have, you know, just put us in a situation where we don't feel a hundred percent certain that the bond market is going to provide that viable alternative. So that's a theme running through this.

I think the theme that attaches to that then is if you don't have that, then what do you have? And you've got to look for other business models, potentially, or platforms to do the lending. And we'll get into that a little bit throughout the session.

MR. SHINE: Have you given any effect to the belief out there that taxes, in general, are not going to go down, they're going to go up? And would that not then make tax-exempt bonds that much more valuable, based upon the actual after-tax cost both ways?

MR. GILBERTSON: I totally agree with you. I think what we're trying to do, is to try to compare forecasted interest rates and then forecast what our cost of funds are. I'll get into that when we get into this economic section here a little bit.

I believe that that's true, that taxes will go up, and there should be even more advantage for somebody who would want to buy a tax-exempt AAA federal government-backed bond.

MR. SPEARS: The last bullet here just throws something out, and that is, Fannie Mae and Freddie Mac may not exist the way they exist today. They may have a different role in the future. They may be combined and merged and…

They also have indicated a renewed interest in doing business with state HFAs. So state HFAs and local HFAs may be a new platform for them to deliver programs that the federal government has for borrowers at the state level. We're not really sure.

At Fannie Mae, our liaison for state HFAs described his -- he has had a different role. They're still trying to figure this out, but he said his profile in the company is, quote, "embarrassingly high."

I'm not sure exactly what that means, but I think it's good for state HFAs in the long run. But we'll just have to see how this turns out.

So let's go to the next slide.

And you'll recall that these are the five priorities, maybe not exactly the way I've listed them in answer to Mr. Hudson's question on Thursday afternoon in March, but pretty close. Pretty close.

And this is Priority Number 1, that obviously credit ratings are vital.

And we'll have a section with more detail on each one of these. It's just a summary slide.

Loss-mitigation efforts are our high priority. It is labor-intensive. When we get to the budget, most of the hires that we're proposing -- almost every single one of them go into REO Management, Loss Mitigation, Multifamily, Asset Management, Fiscal Services in the back office, and Loan Servicing. We're pouring everything we can. And we've spent this year setting things up so that we could put more personnel towards this.

We've also -- by the way, just note for later discussion, we are also looking at opportunities to outsource this to folks when we can in a cost-effective way.

Renew Lending Activities, in both the single-family and multifamily area with New Issue Bond Program. That's the capital. That's what we're going to use for the next year.

Remember, that goes away at least at this point. December 31, 2010, we have to have made our third draw by that -- our third and final draw by that time.

Renew and Strengthen Old Partnerships. Gary has already started a program reaching out to the local government organizations, looking for down-payment assistance and other ways to help borrowers get into homes. Bob is doing the same thing with nonprofits and folks.

And when you've been out of the lending business for 15, 16 months, you have to go out and reconnect. And that's what that's all about.

And finally, the last bullet, it's what we've talked about, Exploring New Business Models.

I can't tell you what those are exactly. We're going to have a concerted effort over the business-plan period to look for different ways of doing the same business and new business opportunities, period.

Okay, any questions before we go on?

Yes, sir.

MR. SHINE: How are we doing with Genworth?

MR. SPEARS: We will -- we're doing marvelously. Genworth -- Chuck, I don't know, is it true anymore to say that Genworth has one of the highest credit ratings of all of the mortgage insurers?

MR. McMANUS: They're in the top three, BBB, that's pretty high for the private mortgage insurance.

MR. SPEARS: Right. All of the mortgage insurers are not doing well.

I suppose you could describe Genworth's position in this world as in the top three of these mortgage insurers.

MR. SHINE: It hasn't gotten worse with them, right?

MR. SPEARS: No, it has not.

MR. SHINE: Okay.

MR. SPEARS: In fact, Moody's had some -- I wouldn't describe it as nice things to say, but they had encouraging things to say about how Genworth is managing their claims processes.

They are rescinding coverage on audits for other organizations based on lack of documentation, a violation of underwriting standards, and that sort of thing. So far, that hasn't been us.

So we're maintaining -- they have approached us -- and we'll talk about this a little bit more later -- they have approached us about a different role. Obviously, for the time being, Mortgage Insurance is not writing new business; and they have stepped up and said, "Well, instead of being your reinsurer, how about if we're your primary insurer?" And we're exploring that idea with them.

And they would like to do new business in California. We said, "Well…" -- and one encouraging thing about the mortgage markets companies there, for a while there last year, nobody would do anything more than 98 percent LTV in California. Now, that's moved up to 95. And what they are discussing with us is 97. An FHA-like product that we could offer.

So I think that's all encouraging.

MS. PETERS: How are they doing on the claims payment? Are they prompt or still slow?

MR. McMANUS: They pay our claims. I mean, they are our claims administrator. And I think they're timely, they're not fast; and they do a lot of investigation because of the drop in values versus the appraised value when they issue the insurance. They have a process they go through to make sure there wasn't fraud in the original appraisal and things.

So while they're not fast, they are consistent, and they're paying about $8 million a month to us.

And their rescissions are maybe a total of 22, 23, lifetime, since we've had our relationship. But where they find a problem, they will rescind coverage.

We have a right to demand repurchase by the originator if the originator is in business. And that's the challenge, so…

But we're doing very well versus the industry. I hope that continues going forward.

MR. SPEARS: That is definitely true.

The only thing I would say -- I forgot to say this about the last bullet -- I should have used stronger words than "*probably*" and "*may*." "It's *probably* needed for reviving and thriving…" "…*may* need new business." I think it's "*likely*" rather than "*probably*" or "*may*." Just to be –

CHAIR CAREY: Steve?

MR. SPEARS: Yes?

CHAIR CAREY: Just back, so from a financial-management point of view, Number 1, is we can't do without?

MR. SPEARS: Right.

CHAIR CAREY: And from an operating basis, it's all about 2, right at the moment, really?

MR. SPEARS: Yes, sir.

We'd really love to begin new lending activities. It's important for our balance sheet to start putting performing loans on our balance sheet. But the first two are the highest priority.

MR. HSU: Peter, we have a chart later on to show how these are all related or dependent on each other.

I would add to Chuck's comment about rescissions. The 20 or 30 that he was referring to are actual numbers of loans of rescissions. And in the industry, I believe they are closer to 30 percent of all the loans for rescission. And so there's a big difference.

MS. MACRI-ORTIZ: Over what period of time are those, the 20 or 30?

MR. McMANUS: There are articles. And maybe I can find some that I can e-mail to you. I would say a better --

MR. SPEARS: Chuck, can you get closer to a mike, please?

Thank you.

MR. McMANUS: A better number for an entire portfolio of defaults and foreclosures might be in the 15 to 20 percent range of what the mortgage insurers are rescinding right now, keeping in mind there were a lot of no-doc, low-doc loans. So you really underwrite a claim where, "Were we told the truth?" because the originator said, you know, "This is what they told me. I think it's true."

So because ours are fully documented we have a little less of it. Because we have a high percentage that were done under delegated underwriting which triggers a tougher audit also.

So, you know, our percentage is way down versus the industry. And we hope that continues. It's been a friendly relationship with our reinsurer, who is our administrator of claims for the insurance fund.

MS. MACRI-ORTIZ: No. My question was, with respect to the numbers that you've given us, what period of time are we talking about? Is that --

MR. McMANUS: We're really talking the last two to three years.

MS. MACRI-ORTIZ: Two to three years? Okay.

MR. McMANUS: I mean, that's when the claims have really started to roll in.

MS. MACRI-ORTIZ: Okay.

MR. McMANUS: It's been the tough period. So the last three years, I'd say.

MR. GILBERTSON: So the only other thing I would add is that, remember, we're talking about a business plan, we're talking about a forecast. I think our assumption regarding Genworth, is that they're going to pay the vast majority of all claims presented to them. That that may not be what the rating agencies think, and we'll get into that a little later in the presentation this morning.

MR. SPEARS: Other questions?

All right, the next group of slides -- before we got started talking about our priorities, I just wanted you guys to understand the environment we're going to operate in, both in the outside economics that are going to go on, but also internally, from a liquidity standpoint. And that's the purpose of these slides.

So let's move to those.

And Bruce and Tim are going to walk us through the economic forecast in these other assumptions.

MR. GILBERTSON: Thanks, Steve.

So when we built the business plan and started to think about it, we thought we had to forecast this operating environment that we're likely going to face over the next 12 to 24 months. So there's slides in here that highlight the key factors that we think will deem success or create more challenges for the Agency over time.

I think one of the important things is that these aren't our own forecasts because we don't have that capability. We relied on people. So we relied on information from the UCLA Anderson School of Business, their March 31, 2010, quarterly forecast. They do a great forecast for California only, as well as the national forecast. So I think from that perspective, it's right on target for us.

We also utilized online resources available via Bloomberg, and some internal projections, especially of our own borrowing costs based off of some of what's happening in the marketplace these days.

Please remember, forecast is that. These are not for-certain going to happen, but it's the best guess as to where things might go over the next two years.

I will tell you that we were working on this last Wednesday. And last Thursday, we all know what happened in the marketplace. The Dow was off a thousand points, backed out to minus 400. The ten-year Treasury went from 3.80 to 3.30.

MR. SPEARS: I think the board packages were on the way to the Fed Ex truck when all that happened, so…

A very fluid situation.

MR. GILBERTSON: So, again, we have to be very flexible in our thinking. And some things have developed as a result of last week's market events that we'll get into as it relates in liquidity.

I don't want to spend a lot of time on this, but I want to respond to any questions you may have.

The California economy, we thought we would focus on a couple of things. We have borrowers that have to be employed in order to make their mortgage payments, so we looked at unemployment numbers. These numbers come directly from the UCLA forecast.

I think what we've concluded is that we're over 12 percent today. It's going to be almost two years before we dip below 10 percent. So it's a slow job creation, kind of a slow growth.

For what it's worth, residential building permits look like they're going to increase but, again, at a pretty slow rate.

Yes, Lynn?

MS. JACOBS: I think that number is wildly high.

MR. GILBERTSON: Wild? The unemployment?

MS. JACOBS: No, no. The residential building permits.

You know, the residential building permits for 2009 are 36,000. The highest they've ever been in the state of California, which was 2005, is 200,000.

I think these numbers are --

MR. GILBERTSON: We will double-check on these numbers.

MS. MACRI-ORTIZ: Are you talking about a quarter or a year?

MS. JACOBS: A year.

MS. MACRI-ORTIZ: Well, this, they're saying a quarter.

MS. JACOBS: But this is through the third quarter. It can't be per quarter. It would be completely crazy.

MR. GILBERTSON: So what this is saying --

MS. JACOBS: Through the third -- through the third quarter of 2011, they'll be 146,000, or annually or something. But even if that's the annual rate for 2011, I would just look at a couple of other forecasts, like Cal Lutheran and Berkeley, just to see on that number, or just call CBIA. Because, you know, I would love that number, but I just don't see it in the information we were given.

MR. GILBERTSON: We'll definitely verify that we picked it up correctly as well. But I believe it would be --

MS. JACOBS: I'm sure you picked it up correctly.

MR. GILBERTSON: Yes. Those should be

quarterly numbers. So that's the number per quarter. That's a lot.

MS. JACOBS: No, that's impossible.

MR. GILBERSON: Yes, okay.

MR. SHINE: It's never been more than 210,000 units.

MS. JACOBS: Ever.

MR. SHINE: Since they've been keeping records at the Construction Industry Research Board, there's never been a year with more than two hundred per year through the state.

MS. PETERS: It has an extra zero.

CHAIR CAREY: And what's most important is the degree to which that assumption affects the predictions for CalHFA. And if they are wild, then what's the impact of that?

MR. GILBERTSON: Yes, correct. And so that could flaw some of the other forecasts within the report. So we'll spend some time when we get back to the office to look at that.

More importantly perhaps for us is interest rates. Because all of what we do is backed by, you know, bonds that we sell in the capital markets. So we focused a lot on the ten-year Treasury. I think the takeaways is that the forecast is for a general rise in interest rates, even irrespective of what happened last week.

So by early 2011, the ten-year Treasury might be over 4 percent, a year and a half later, over four and a half percent. That will also drive the general direction of conventional mortgage rates. As you can see, they would move to 5.50 and 6 percent over the next couple years.

Again, I think the cloud that we potentially see is, if we don't have investors willing to pay up and accept a lower rate of interest for our housing bonds -- tax-exempt housing bonds -- what does that mean?

And so we'll go through a little bit more on this page 8 when we get into this table about the correlation between our borrowing costs and mortgage rates and how that all works.

The first thing you're going to see -- and I guess the last bullet on page 7, just quickly -- is that once we lose the New Issue Bond Program -- remember, this is the federal government program we started last December. We locked in our cost of funds on a billion dollars based off the ten-year Treasury in December. So once that goes away, you can see there is a pretty good jump in our projected cost of bonds, bond costs.

Just to make sure we're all reading this table correctly, these are fiscal-year quarters. So Quarter 1, under 2011 is July 1 through September 30th. And the fourth quarter would be the spring of 2011.

Again, we've talked about some of this. You can see the ten-year Treasury, we expect in July to be 3.87. That's got a ways to go to get there right now because it's fallen. I think it's currently in about the 3.50, 3.55 range. And then generally trend up, you know, over the next two years.

Short-term rates as measured by the Fed funds currently at 25. This is kind of a consensus estimate that it will have to move up higher and the Feds will have to raise short-term rates over this next two-year period.

The domestic municipal bonds line that's shown on here is, again, right out of the UCLA Anderson forecast. It's their proxy for a municipal bond. It's probably more akin to what Katie's world is with a municipality that has taxing power in the G.O. of a state or a county other a city. So we derived our own, which is slightly different, which is based off the blended rate that we would achieve in the marketplace for a housing bond.

Remember, there are special features regarding a housing bond. We have special redemption rights that allow us to call out a bondholder with prepayments and things like that.

But you can see the trend. And I think what's important for us to do -- and I think I can just walk you through it.

If you look at the housing bond cost, which is our approximation of going forward in the conventional mortgage rate line, you need to add 1 percent to the housing bond cost, because that's normally what we would do when we were setting the interest rate for what we would determine to be a full-spread mortgage loan.

So in the first quarter of 2010-2011, the 4.02, if we add 1 percent, it would be 5.02. And that would be the rate that we would offer to our first-time home buyers. And that would actually compare favorably to a conventional mortgage rate of 5.25.

If you go out to the third quarter of that first fiscal year, you see that we're projecting this big bump from 4.05 to 4.60, and that's because we've lost the New Issue Bond Program, we've lost our rate lock on all of those bonds.

So when you add a point to 4.60, you come up with a borrowing -- or loan rate for us of 5.60 that may not compare very favorably to the marketplace.

And that kind of trend continues.

So, we hope we're off on that forecast, but that's part of what's driving our thinking here. That's part of what's leading us to believe that we need to look at other platforms, perhaps go to the federal government and ask for an extension of the New Issue Bond Program, allow it to go beyond 12/31 of 2010. Those types of things.

I won't dwell on the rest of this.

Single-family loan projection. These are some projections from Chuck, in large part, about the number of modifications we'll do per quarter, the number of short sales that might be accepted, foreclosure activity, and REO projections.

And then the bottom line, these are some relatively new programs for Multifamily. These projections drive part of the liquidity analysis that Tim is going to walk us through on the next couple pages.

Let me stop there and see if there's any questions.

CHAIR CAREY: Questions?

MR. GUNNING: Under the last one, Bruce, the Mental Health Services Act, please explain final commitments. What are those?

MR. GILBERTSON: So this is -- and Bob will get into this a little bit later -- but, in general, we do a loan commitment for the use of these funds, and we receive an administrative fee, number one, at the time of commitment, and then we earn a small fee over time, over the life of the program.

MS. PETERS: I have one question back.

Under the single-family loan program information, the numbers don't seem to vary very much.

Why not?

MR. GILBERTSON: Chuck, do you want to answer that now, or do you want to --

MS. PETERS: Or at all in some case.

MR. McMANUS: Number one, we can't tell the future, so we're making a good business estimate for staffing and expenses.

And our assumptions, which are focused on the REO market, is that there's going to be more competitive REO, that the banks are finally going to foreclose and put them on the market and so forth.

So we think we're going to have a tougher market out there to sell our REO. We're in a pretty good market right now. It's not an oversupply of REO because there's a shadow inventory of delinquencies that just aren't getting foreclosed. We think that's going to come. And that's going to make it more competitive.

So for planning purposes, we put what we think we can get in and out in a month. And that's where you get the 315 sales based on our seven REO managers. And the foreclosures are from our portfolio of loans, how we see the foreclosures working ten months after the initial delinquency.

So, we see a building of inventory, and then a dissipation of inventory as our rate of sales catches up with that income, so -- and this is for planning purposes. It's just staffing purposes is why we did it. We didn't try to model new interest rates and so forth.

MS. PETERS: So the number of short sales, the number of foreclosure sales is just a function of how many people you have to do them?

MR. McMANUS: Well, no. The short sales, it's our anticipation of dual loan requests coming in. There's a hardship requirement, and then the proceeds from the short sale must equal or exceed our anticipated foreclosure outcome, the net proceeds from a foreclosure option, because we have to do it for the bondholders. We have to get at least equal money.

So that's just the activity, we feel, of applications.

We have kicked that up significantly to 273 based on the Hardest Hit fund, we think that's going to trigger a lot of requests because now there's a pay-down of principal option, which is much more attractive than what we're currently doing, which is reducing monthly payment through interest and extension of the term.

So we think that's a pretty high activity. Remember, that's your existing portfolio. That's just delinquent loans and your existing portfolios coming in as applications.

MS. PETERS: I'm just surprised that, for two years, you are forecasting flat, exactly the same short sales as REOs.

MR. McMANUS: I'm really taking the two years, and just chopping them into four pieces because I don't know how it's going to come in, I don't know the outside interest rates, I don't know the other. And when you're staffing and planning people and resources, a level flow is reasonable.

If I thought it was going to go way up or way down, I would have slanted it up or slanted it down. But I had no more sophisticated way of doing it. I could match the loan-modification requests with our IOP change of payment, because our interest-only loans are now starting to schedule, and pretty heavy, the 2005's. And 2006 was our banner year. And 2007 was still heavy.

So I see IOP changes coming, but they're reasonably steady, the number of changes per month, they go up, but it's up maybe 30 percent from initially. And it's spread out over time. And I think that's where my modification requests are coming.

It was a big portion of the book of business. It was 80 percent of the business.

So that's pretty steady. It does go up. I could slope it up and slope it back down --

MR. SPEARS: Right.

MR. McMANUS: -- I thought --

MR. SPEARS: Heather, I think if I put a pattern on this, I think I'd front-load this, because our emphasis this year is going to be to ramp up getting the backlog out; and then I would tail it off at the end a little bit more.

MS. PETERS: Okay, thanks.

MS. MACRI-ORTIZ: This is a little bit off the subject, but just a thought occurred to me in terms of the REOs and getting those things out.

Since you're working with counselors and partners, making that effort to get out into the communities, I don't know if you thought about maybe, you know, letting in the different counties where you have REO stock of trying to get some partnerships there. And where they're dealing with first-time home buyers, maybe they can start routing them into those homes. I don't know if that's something you've already thought about.

MR. McMANUS: Steve, do you want to talk about first-look, or do you want me to talk about it?

MR. SPEARS: We have talked to local governments -- actually, this conversation started with Jay Stark, somebody that Lynn knows -- about a program where local governments that have NSP funds could take these properties, buy them from us, use NSP money to fix them up, use NSP money for down-payment assistance. And then if we're lending again by that time, they could actually complete this process by getting a CalHFA loan.

That is not free of legal questions. We're trying to work out all the details of that. But that's what we're trying to do at this point.

The only problem is that we do have -- we have a thousand properties now that are REO. About 300 are FHA and the rest of them are ours to keep and do with what we want.

The problem is if they were in about five concentrated areas around the state, that would be really great. But there are two and three here, two and three, two and three, around. And if you add them all up in such a big state, over a large geographic area, it adds up to 700. We don't have an inventory of a hundred that we could walk in and offer to Ventura or Stockton or --

they just -- they didn't collect themselves like that.

So I guess what I'm saying is, it's not as efficient a process as I would like to have. I mean, I don't want more REOs. I want people staying in their homes. But it just doesn't work out to be a really high-volume program that works efficiently.

MS. MACRI-ORTIZ: Yes, well, I'm just thinking, in terms of the way it's working in the communities, with some of these commercial REO people, the homes are a mess, and it takes them forever to get them in any kind of shape. And then you do have, say, like the neighborhood-type organizations out there that are helping people that want to become homeowner, that maybe even just kind of a listing, saying, "Okay, this is what we have in Ventura County. This is what we have in LA County."

Just letting the people who are dealing with customers, who are looking for homes that -- because a lot of people are looking, thinking, "Well, I can afford an REO. I can't afford something else." So it's just, how do you hook up people who --

MR. McMANUS: We post all of our properties on the Web site, and we have a special Web site we're getting for the counties and the cities where we'll post them in advance, and they'll have 14, 15 days, first look to get them, and get an appraisal and make an offer, and we'll be getting an appraisal at the same time.

And as long as we can come out even for the bondholders -- and that's after deducting for expenses we're not going to have, the selling expenses, so there's a slight discount for the buyer and equal proceeds for the indenture, we will sell, and are trying to sell to the cities, the counties, and so forth.

And on the others, it's pretty much, a lot of the properties require a fix-up and repair in order to be financeable. And we look to the investors to get it done.

If it's extensive, we do it ourselves. If it's more or less cosmetic -- you know, paint, carpet, clean.

And we are posting and trying to promote for the first-time home buyer. But some are so damaged, that they're not financeable, okay.

MS. MACRI-ORTIZ: I've seen some.

MR. McMANUS: Okay, they have to be purchased by someone who will put the money in to fix and repair them.

MR. SPEARS: One key statistic, obviously, for the backlog and the performance of the portfolio is the unemployment line. And if that doesn't come down like that, we could continue to have increasing delinquencies.

And if it comes down faster than that and they perform better, then the numbers down below there in loan-modification, short sales won't be necessary for folks who got jobs and are paying their loans. So that's a very key line.

CHAIR CAREY: And the unemployment issue is regional.

MR. SPEARS: Yes.

CHAIR CAREY: It depends on how the unemployment matches with where the portfolio is. And there's certainly areas where there's high portfolio and very high unemployment.

MR. McMANUS: One comment earlier on the new construction numbers -- and we were concerned about new construction. Most of our borrowers do not buy new homes. And the inflow of very affordable REO is a big opportunity for affordable housing and low- and moderate-income people. And without -- I guarantee you, there's going to be heavy flow of affordable-housing inventory available for the next two or three years, for sure.

And so our volume of lending or so forth, this is the opportune time to do it if we could get affordable funds.

MR. HSU: I believe -- I missed the last Board meeting, but I believe a question was asked last time that -- a question that we wrestled with all the time, that are we taking in more money than we're spending? And I believe that's Mr. Shine's question.

The best place to answer that question is, oftentimes, we talk about something called "Agency liquidity." And when we refer to the Agency liquidity, what we really are talking about is a collection of accounts that sits under the Housing Finance Fund. So if you're an accountant, you sort of -- you will go look for these accounts under the Housing Finance Fund.

And when we talk about rating agencies, I'm trying to use -- I'm trying to connect the dots here by the various things that we're talking about. And when we're talking about rating agencies, this is really the General Obligation money that's not sitting inside somebody's bond indentures we have.

And if you're sort of a private-industry person, the collection of these accounts together, which we sort of refer to as the "Agency's liquidity," is really our working capital.

So what we're going to present over the next two slides is sort of the ins and outs of this working capital account.

And I'm going to -- again, this account doesn't exist in one entity. It's sort of a collection of accounts. And what we have done here is sort of pretend as if it were one account for the sake of presentation.

And this account is the account that we use to fund operating budget. It is the account that we use to pay cost of issuance when we issue bonds. It is an account that we use to support General Obligation, desk service, shortages out of some of these bond indenture funds that we have.

And it is also this account, the money that sits in the account, that we have been talking about to the Board that we have been trying to preserve. We've been trying to limit the amount of HAT contributions to down-payment assistance loans for single-family production.

And HAT, which stands for Housing Assistance Trust -- which is an acronym that I missed in the back of the glossary, I'm sorry -- is one of these accounts that's under the Housing Finance Fund which is part of our working capital. We've been trying not to use those kind of funds to increase or help us make single-family loans.

And we also have been trying to preserve this money in not contributing to preservation projects in the multifamily space.

And this is also the very same account, or collection of accounts, that we've been trying to increase the cash by doing opportunistic de-leveraging of the balance sheet or monetizing our loan assets recently when we did Ginnie Mae securitization of taking FHA loans, making them to Ginnie Mae, selling them to the open market. We have a report in the binder that talks about the whole process.

We also have done a Citi transaction, in which we have taken multifamily loans and we sold them to Citibank. And, again, all of these transactions are basically an attempt to say, "We have loan assets, and loans are great for producing an annuity, but we actually would like to have that cash today." So that act of monetizing the loan assets can increase the amount of money that we have in this collection of funds that we refer to as "Agency liquidity" or "Working capital."

On the --

MR. SHINE: Can I ask you a question, please?

MR. HSU: Sure.

MR. SHINE: You're talking about aggregating everything that this agency has and figuring out how much came in and how much went out; is that right?

MR. HSU: That's correct.

MR. SHINE: And included in that are the sale of assets which adds to the "cash in" for this particular period that you're using?

MR. HSU: Yes. But keep --

MR. SHINE: On an ongoing basis, do you have other -- so your projection is for one year -- or one period of time, aggregating income -- it's a cash flow, aggregating income and expenses, what did you have when you started, what did you have when you left.

Is that correct?

MR. HSU: That's correct. When we have --

MR. SHINE: Am I correct in understanding that part of the income side came from selling assets?

MR. HSU: I think the better analogy, although I don't have formal accounting training, is that this is more of a statement of cash flows for the Agency's working capital. Because when we sell an asset -- suppose that you sold a loan at par, you don't realize any income. We just turned something that's under receivables into something that's now cash.

MR. SHINE: Did you, in your estimate, aggregating as you're doing, take into account assets that sold where we made money?

MR. HSU: Yes, yes.

So, for example --

MR. GILBERTSON: Well, only transactions that have actually occurred. There are no future anticipated transactions like that.

MR. SHINE: But -- understood. You're right on the point.

I'm trying to clarify in my mind that when the next period comes to aggregate income and expense on this cash-flow concept that we're talking about, will it be necessary to sell more assets if we have them, to keep the cash income sufficient to cover the cash out-go?

MR. GILBERTSON: Not necessarily. But, of course, we'll look for opportunities to do that if they avail themselves.

MR. SHINE: .Of course. Okay, thank you.

MR. HSU: Right.

A point of clarification here, is that it takes a while to understand our accounting financial statements. Well, what we're trying to do here is to bring this whole exercise to a very high level, so that you don't have to look through our financial statements to understand the big picture. And the big picture is what we're trying to present here.

But we do have assets that are inside bond indentures, that are really pledged to the bondholders. And to say it in sort of a conversational way is: We can't simply just take the cash on those indentures to, let's say, pay for any employee's salaries.

So what we're trying to do here is an exercise to say, while those indentures may have, under certain circumstances, situations where they could release funds into this account that I'm sort of describing today as the Agency's working capital, we do capture those events; but we do not avail ourselves to all the cash inside these indentures because they don't belong to us.

When I say "us," again, I'm sort of defining this working capital that could be used to fund operating budget.

MR. SHINE: So if you have assets which you don't use to convert to cash, you don't count it as cash?

MR. HSU: That's correct.

MR. SHINE: Good.

MR. GILBERTSON: And just maybe to add one other thing. We're not using income stream or the conversion of an asset that's pledged to a bondholder under a specific indenture. Because remember, this is -- we have many more assets under the lien of an indenture than we have assets for this working capital fund.

MR. SHINE: Understood.

MR. HSU: And the one thing that we have learned over the last two years or so, is that when you want to monetize your assets, so does everybody else.

So these opportunities to de-leverage a balance sheet is very, very specialized situations. And we're trying to unearth them as the best -- to the best that we can, but we have not captured them, sort of captured future anticipated events, but we only have reflected things that we've done.

There are some assumptions on page 9. I'm just going to go through the assumptions at the same time I'm going through page 10.

And to give the punch line here, the short answer to Mr. Shine's question is: Yes, we are taking in a little bit more than we are using over the next two fiscal years.

What we have here is the projected balances. Because you'll notice that the beginning balance at July 1st, 2010. And that balance, obviously, is not today. So all the balances here are projected balances.

And, again, if you were looking for where this cash is, this is some subsidiary accounts under the Housing Finance Fund, and it's also under our General Obligation we talked about, and this is sort of our working capital account.

We start out on July 1st with about $120 million of cash in this account. And the biggest contribution, the inflow, or how much money we're taking in, into this account, is the assets that we have, there are not inside bond indentures. And they sit also under this very all-encompassing HAT, which is Housing Assistance Trust, which is under the Housing Finance Fund.

So these are, in large part, very seasoned multifamily loans that we have originated years ago, and they generate, you can see here, for the next fiscal year, or the coming fiscal year, $36 million.

And the next large item is that $27 million, which is in large part admin fees. And the biggest component of that $27 million is that our single-family indenture, which is the home, if you will, of a lot of the loans that we've been talking about, that are undergoing delinquency and troubles, that indenture, if it passes certain cash-flow tests, can also generate about $14 million to $15 million of admin fees to the General Obligation.

And the next item is the Bay Area Housing, which we have spent a lot of time talking about. We believe that in this fiscal year we would finally be able to take that off our balance sheet, which will contribute a liquidity of $88 million to the cash position.

I would note, however, that if you look at the $88 million and you look below, where we have the "Uses of Liquidity," you'll see that we also, in that time frame, need to repay the revolving credit agreement of $100 million to BofA. So net that transaction would actually mean that the Agency loses about $12 million of cash.

In terms of answering a question about intake and also outtake, for that -- if you're in that time -- if you're in that mindset, you should probably ignore the $88 million and $100 million because they're more liquidity issues and not sort of free cash flow and expenditure, if you will.

And in that fiscal year, we have $46 million of operating expense, which does increase slightly over the next fiscal year, which I think Steve is going to talk about a little bit more later.

We do have another $5.1 million of loan commitments. And this is, in large part, the HELP loans that we have committed to the local agencies that have not drawn yet.

And we also inserted about $5.3 million of basically the cost of doing the NIPB bonds when they go out; and also, again, this cash that we have in this working-capital account, if you will, does help out on some of the General Obligation indentures that we have which are not cash-flowing.

So at the end of the year, you'll notice that we actually have a little bit less cash than we started out with. And, again, that's, in large part, because of this loss in cash because of the Bay Area transaction, which I would remind the Board that the Bay Area Housing loans are now sitting on this line of credit with BofA.

So if you carry on to the next year, the $116 million is where we start out. And we have another two numbers here, which are almost identical to the first fiscal year of $34 million of intake from the unencumbered loans, another $27 million of admin fees. And we don't have to deal with a Bay Area Housing again, thank God. So we don't have that line.

MR. SPEARS: Ever.

MR. HSU: It doesn't come back on the debt somehow.

So -- and here, you can see a little bit better what that phenomenon, if you will, that I was talking about, is that these two numbers together add to 61. If you look at the expenditure below, it's 52. We have a slight positive cash flow into this working capital account.

The one thing that I didn't mention about when we talked about this $5.3 million of financing costs and debt-related costs, is that we are assuming two things, which is covered on a previous page -- two things.

One is that we have spent quite a bit of time in the past talking about this relationship between the single-family indenture and a General Obligation and the reimbursement relationship between those two entities with respect to swaps.

We're assuming that because we have the TCLF in place, which is the liquidity support from the federal government on the bonds inside the HMRB indenture, that the reimbursement will continue during those two fiscal years, which we fully expect because those bonds are performing quite well.

And the other thing that we assumed is that we wouldn't have to post a lot more money for swap collateral purposes in the next two years.

While we have assumed that, over the last couple weeks, I think Bruce alluded to earlier, because of this flight to quality and fear in the equity market, the fixed-income market has rallied a lot. And by that, I mean, rates have come down a lot. So we are now more negative on some of these swaps to our counterparties. So we have had to post another $70 million to our counterparties in the months of April and May. And then because we lost our credit rating with respect to S & P to the single-A range, we posted another $8 million because now we have lower thresholds to the counterparties.

So all in all, in April and May, we lost $25 million of cash to posting the collateral -- posting collateral to the swap counterparties. But keep in mind that if we are answering a question about cash inflow and cash outflow, that $25 million could as well come back to us later on.

So, for example, we were just getting e-mails earlier that we have requested $2.4 million of cash back from JPMorgan. So that is a very fluid situation that is basically happening all the time.

So those are two large assumptions we made.

And what you can see here is that at the end of that two -- at the end of those two fiscal years, we actually have $5 million more cash than we had at the start. And that seemingly -- how should I say – that in light of everything else that we've been talking about, in light of all the other doom and gloom, that may seem really a sort of positive note.

And a note of caution. One, is that if you -- this is sort of just from an outsider point of view -- that slight increase of $5 million, even if it were to happen -- because I sort of outlined some assumptions -- it's very, very small when you consider the amount of leverage that we have and the total size of the balance sheet, which is in excess of, you know, $7 billion.

MR. SHINE: But the fact of the matter is that the way this is set up, we spend -- we get $9 million more than we spend in that year on general debt, general overhead, and so on; is that right?

MR. HSU: That's correct.

And this annuity, however, if you go out a bit longer, does drop off rather quickly. Because as I mentioned, these are seasoned multifamily loans, and some of them are in their last, let's say, five years of payments and whatnot. So it is a fairly positive picture if you're looking over those two fiscal years.

So what I would caution is that in terms of the -- if someone were looking at some sort of, like, return on equity ratio, this ratio is very, very low.

And Bay Area Housing, while we are very ever-hopeful that we will be able to sell these loans this year, it's still an open question.

And the RCA, the RCA, if we could renew it, then we would be in a much better position. But if we can also is a big assumption.

And last but not least, is the swaps, with the assumption that the swap-reimbursement relationship can continue over those two years, between HMRB and the

General Obligation.

CHAIR CAREY: Are there questions? Are there other questions regarding liquidity?

MR. SHINE: I'm loaded with questions.

Am I clear -- or is it a correct statement that the situation with respect to the Bay Area Housing, at the end of the day, when we're all through with it, cost us $12 million?

MR. GILBERTSON: No.

I think what we're comparing here is that it's ironic that we're using the BofA revolving credit agreement to finance those on the short-term.

And all we're saying is that if the underlying assumption here is that if that credit line goes away in February of 2011, which reduces our liquidity base by $100 million, and if we don't sell the Bay Area Housing properties between now and then, it's going to cause some serious pain.

Because we could simply change an assumption here and say the $88 million of Bay Area Housing loans does not convert to cash, and then we would have a $100 million credit line going away -- a use of cash -- and you get a much different result.

MR. SHINE: But on a P&L basis, would you say that, at the end of the day, when we're all through with

Bay Area Housing, that we ended up getting something out of it?

MR. GILBERTSON: Yes.

MR. SHINE: Or we ended up -- we did get some income?

MR. GILBERTSON: Yes.

MR. SHINE: So it was a positive financial experience for us?

MR. GILBERTSON: If we can get it off our balance sheet, it would be a positive financial experience for the Agency.

CHAIR CAREY: And if we can't -- and if we can't do the sale of the Bay Area Housing Plan, that takes our liquidity down to about thirty-some million?

MR. GILBERTSON: If the assumption is the Bank of America would not extend an allowance to at least continue to hold those.

You know, we've been very, very up-front, very honest. We've talked a lot with the Department of Developmental Services and the Department of Finance in the last six weeks. We have to get this solved by November of this year. Not January of next year, but November of this year.

So I think we've got everything -- the message is out there, hopefully it all comes together. And there's a number of different solutions that are being kicked around to help in that regard.

CHAIR CAREY: And I would hope the "we" is inclusive of others outside of CalHFA, because I don't think we got into that entirely of our own devices. That was a state priority that we took on the challenge. And I think it's important that the "we" be a very inclusive --

MR. GILBERTSON: As our former director, Terri Parker would say, again, "No good deed goes unpunished." And clearly, we were trying to be helpful, I think; and it's really backfired in this situation.

MR. SPEARS: I will say, the corporate "we" includes the Department of Finance. And I've had two or three personal conversations with Ana Matosantos, the director; Fred Klaas, since he's not here to speak for himself, I'll speak for him.

He's been very active with his own staff in coming up with solutions. And on his return next week, from the reason why he couldn't be at this meeting, they -- his staff has been tasked with coming up with a proposal for him when he returns. So we are that far along in talking about various options.

All right, if there are no more questions on that, then I will take you to another colorful chart which you may recognize from a chart you've seen before, and explain the relationship between the HMRB indenture and CalHFA.

And all I'm trying to do here is illustrate to you in one-page, graphic form the forces that we're working with and the priorities.

So the Priority 1 in the HMRB indenture and with our General Obligation is to maintain our credit ratings, in those top two boxes.

Obviously, that's dependent on how our single-family loan portfolio operates and performs. So the highest priority -- the next highest priority is the gray box on the left, and that is to deal with that backlog of delinquencies, mitigate losses, modify loans if we can, short sales, and get that resolved.

And involved in that, of course, is the U.S. Treasury's Hardest Hit funds will help with Priority 2. So when we get to that.

Then managing Agency's liquidity, that we just talked about, obviously, helps with Priority 1. The better liquidity position we're in, the better the rating agencies like it, as you can possibly imagine.

With our liquidity, with new lending comes better liquidity. Now, not right away, it takes a while for new loans to come online and begin to be profitable.

It takes two or three years to recover the cost of going out and issuing those loans. But the sooner we get started with that, the better. And the New Issue Bond Program will help on the single-family side and on the multifamily side.

And then this is not a stop sign down here in the bottom right.

MS. PETERS: You ran out of shapes?

MR. SPEARS: I didn't even think about that.

It should be a circle, a circle-of-life type of illustration.

But Priorities 4 and 5 are down here. We're going to have to get --

MR. HSU: I did mention the octagon was a stop sign, Steve. You just ignored me.

I did make sure it wasn't in red.

MR. SPEARS: But that will be a very important priority down the road.

Drawing on partnerships we've already been in, looking for new partnerships, exploring new business models. And that's everything in a nutshell.

This, you can fold up, put in your pocket, carry around with you.

CHAIR CAREY: "You are here"?

MR. SPEARS: Yes. "You are" -- on the entire page.

CHAIR CAREY: Okay, any further questions on that point?

(No response)

CHAIR CAREY: Before we launch into specifics, I think we'll take a ten-minute break.

(Recess 11:33 a.m. to 11:51 a.m.)

CHAIR CAREY: Okay, we're back in session.

I think that we've really taken our time to understand the environment in the current and some of the anticipated future here.

And so I'm hoping we can move the presentations through in a timely manner as we work through the priorities, with ample time for questions from Board members, obviously.

So with that, we'll lead off with Priority 1.

MR. GILBERTSON: Okay, and this should not be a new topic before you at all.

We talked a lot about the credit ratings of the Agency. You've seen a similar slide like this before. Clearly, what we're hoping to do is maintain the ratings at levels that work for the Agency.

This slide shows you the current rating levels for the General Obligation rating of the Agency, as well as HMRB. And then the bottom line is kind of the floor where we start having more stress if ratings were to fall.

So how do we go about maintaining ratings?

Really, the key points in every conversation with either Standard & Poor's or Moody's is, "Tell me how that single-family loan portfolio is doing," "Tell me your loss mitigation efforts," and "Tell me how that's all going to work out." We have those conversations frequently. I had one with Moody's again just yesterday actually.

The other component is they want to understand liquidity, they want to know that we have enough cash to pay our bills as they come due and all of that.

We just covered that. Tim did an excellent job of walking you through kind of the Agency's liquidity projection.

The third item on their list would be, they look at available capital, and then they say, "How are you pledging that or committing it?" And we do it oftentimes in our Multifamily Program.

The bullet -- the third bullet here, where we talk about limiting the Multifamily lending because we don't have capital support the program, is that we don't have capital support on uninsured lending or unguaranteed lending in the Multifamily space as the Agency has done for the last 15 years or so.

So until we have more clarity on where the rating agencies end up, we feel it's best to not do that.

And Bob will talk about the initiatives that he has in using conduit financing for the better part of this business plan cycle.

And then the other thing to remember is that we're always on guard, Tim and I, to look for things to improve the capital structure, how do we get out of some variable-rate debt, how do we better interact with swap counterparties and make them perform better for us. Clearly, we haven't issued new variable-rate debt for the last two or three years, and have no plans to do that. We need to stabilize the business model and the ratings. And hopefully, during the life of this business plan, things will work out and we'll be able to maintain the ratings at sufficiently high levels for us to operate going forward.

Questions on the Number 1 priority, kind of, of the Agency?

CHAIR CAREY: Any questions?

MR. SPEARS: Did we answer the question about sort of where we are with Moody's?

S & P has given us their decision on both HMRB and the General Fund.

MR. GILBERTSON: Correct, back in April, early part of April.

MR. SPEARS: We are now off CreditWatch with them.

MR. GILBERTSON: Yes, we have our ratings. They're A rating levels. They're on negative outlook. We don't really anticipate any further interaction with them until later this year, once we have the audited financials of the Housing Finance Fund, they'll ask us to update and do new cash flows and all of that, which is the standard part of their ongoing rating surveillance of the Agency. So that would be in November, December, January kind of time frame.

Moody's, on the other hand, I did talk to our analyst at Moody's just yesterday. They're working hard. They still have not determined loss projections on the single-family portfolio. It's hard for us to react to anything until he shares with us some of his own numbers. They're working hard on it.

I would expect that during the month of May, we'll have some additional information from them. And then once they're finished with HMRB, they'll move on and finish up the General Obligation rating overview.

So in four to six weeks I would expect we would probably get the Moody's analysis as well.

CHAIR CAREY: Great.

MR. SPEARS: All right, Priority 2, Loss Mitigation.

I'm going to ask Chuck to come back up.

We've talked a great deal about where we are in our portfolio.

You can hit the button there, Tim, and go to the next slide.

We have approximately 4,900, almost 5,000 loans that are in some form of delinquency. About 4,400 of those are over 90 days. That's our backlog.

The loans in foreclosure, about 1,400 and, again, about 1,000 REO.

Now, the left-hand side of this, the FHA side, are claims that we're going to file with the federal government through our servicers, including our own loan servicing department for -- if those loans run into trouble.

The ones that we really worry about are the ones on the other side there, the 16,000 loans that are conventionally insured or not insured at all. And there's 80 and under loans.

So we continue to monitor this. This is going to be the focus this year to put many more staff into this process. Probably reduce the use of temporary help, outside help. Use limited-term appointments in the Civil Service System to bring folks in to work on this until the backlog is worked out. You know, we talked about that peak. And as it tails off towards the end, then those terms would end.

But the loan-modification program that we do have in place, this is without any of the Hardest Hit funds so far, has been very active. And it's ramped up nicely. There are 615 applications. We've approved 363, but quite a few those get rejected. And some of them get rejected simply because people thought we were going to write their balances down, and we didn't, and so they just say, "Well, then I'm leaving." And that's unfortunate.

But the good news is that we have almost 170 borrowers. And I think it's a little bit over the number that you see on the slide here now, that are in their homes now because of a loan mod. And that's good news.

We're going to try to improve this as much as possible. I've asked the staff for some specific goals about, you know, what we want this number to be as far as total delinquencies by the end of the year. We want to substantially reduce that by two or three thousand loans by the end of the calendar year, so that we can begin to show some progress.

If that happens, then you will see our delinquency rate come down just for the simple fact that we have worked off this backlog.

And if you go to the next couple of slides there then, Tim --

MS. MACRI-ORTIZ: Can I just ask one question on that?

MR. SPEARS: Yes.

MS. MACRI-ORTIZ: In terms of 169, are they still showing in the figures here of the 16,000 and 14,000?

MR. SPEARS: They're in the --

MS. MACRI-ORTIZ: They're considered -- I mean, are they part of this picture or have we already deducted them out of there?

MR. SPEARS: They're in the total number, in the 14,000 and 16,000.

MS. MACRI-ORTIZ: Yes, okay.

MR. SPEARS: They're no longer in the delinquency category. We've pulled them out.

MS. MACRI-ORTIZ: Okay.

MR. SPEARS: I've also asked staff to follow these so that we know if anybody redefaults and what the performance level is. So we're going to learn a little bit more about that. It's a little early, but…

Okay, in the next slide, I wanted to give you an idea here of the trend that we're seeing. As you can see, it's a little bit of a roller coaster. But over the past few months, what we started to notice is that, in general, I can a make a couple statements. One is in the 30-day category -- 30- to 60-day category, it's all over the map: It's up, it's down, it's up, it's down. And we believe that's because there are a lot of people in there that just, they forgot to make their payment, they made it one day late. And that goes and comes just with, you know, life.

In the 60-day category, however -- and I brought all of my charts just in case you wanted to see more charts -- in the 60-day category, there's a very steep drop-off in total delinquencies. Even in the IOP and 40-year products, there's a drop-off in delinquencies.

Now, word of warning: The IOPs are just now beginning to reset, and we could see that go back up again. But that's the trend that at the current time, is this: We're seeing fewer loans go into that 90-plus category, and that's good news.

The only word of warning is the last bar on the right there, the March, that's not a reconciled number yet. And by that, I mean, the accounting folks and all the servicers haven't squared away to the penny exactly whether all the right amounts of money are in the right loans yet.

Now, the next slide shows us the -- you can see how the backlog built. And, again, this is during the time when we had moratoriums, this is during the time when we were developing loan-mod programs, this is during the time we developed a call center and moved everybody across. And I will admit to you that during that time, we got behind and that backlog built up.

So what we're starting to see now, though, is we're making some headway, we're making some progress. Some of that decrease is due to loan mods. Some of it's due to short sales that we've done. Some of them are due to foreclosures and going to REO. And I hope that is an improving trend.

Well, let me just stop and ask if there are any questions on that point. Just my point here is that we're seeing a little bit of progress here, especially on the backlog.

MS. MACRI-ORTIZ: On the loans that are going to be resetting, what interest rates are they looking at?

MR. SPEARS: Oh, they'll be -- the interest rate is fixed for these loans throughout the life of the loan.

MS. MACRI-ORTIZ: No, I mean, on the interest-only loans that are they going to reset. What are they going to --

MR. SPEARS: What's happening is, they only paid interest for the first five years. They're going to pay the same interest rate, but now they're going to start amortizing their loan.

And on average --

MS. MACRI-ORTIZ: So they'll be -- so their total payment will go up to incorporate some principal?

MR. SPEARS: They'll start amortizing those loans. And the average increase is about 17 percent.

MR. McMANUS: Correct.

MR. SPEARS: Increase in the payment.

Which we don't have a variable-rate borrowable product. We just simply say, "Here's a loan product."

And for the first few months of this program, we underwrote to the smaller interest-only payment. Chuck got here and clanged an alarm bell, and we started underwriting to the bigger payment.

So I'm more worried about the earlier loans that got in this program than I am the later ones. But we seem to have the same experience, no matter what, at least at this point, with both loans, that that's the case.

CHAIR CAREY: Does it change in the payment not at that point which triggers people thinking?

MR. McMANUS: Yes, I think it's more the thinking. They've been paying, and so they're in a rut and they're paying; and all of a sudden, you're going to pay 17 percent more. That's a big payment shock because these were generally people whose housing payment was probably 45 percent of their income.

MS. MACRI-ORTIZ: Already?

MR. McMANUS: Yes, already, it was about that average on our underwriting ratio.

And so you're going to increase that. So it's 45 percent, and the 17 percent is the percentage increase of income. But it will get them to think about it, and "Do I still want to continue to pay on this house?"

MS. MACRI-ORTIZ: The only selling points you have -- I mean, if they were resetting on the interest rates, I think you'd have even a hard time keeping them. But if they're resetting as well, you're paying principal now. You're paying for your house. It's a little bit easier to stomach.

MR. McMANUS: Yes, I think it's going to take a very proactive loan-modification program before we can bring down interest rate, possibly buy down the principal to some degree, et cetera. But it will be a challenge.

MS. PETERS: On these loans, are they high priority in the pilot of Hardest Hit?

MR. SPEARS: Yes. The only problem there will be if they have a job, they're not an employee, they don't have a hardship, they just -- if somebody comes along and says, "I don't think that I can afford this 17 percent because I like to live the way I like to live," we're not going to able to help them with a Hardest Hit loan.

MS. MACRI-ORTIZ: But if they're already at 45 percent? I have read something about the goal was to get people down to a certain percentage, which it was like -- it was in the thirties.

MR. McMANUS: 31, 31.

MS. MACRI-ORTIZ: 31?

So is there a way that the overpayment that they're paying for housing can be taken into that equation, and be able to use that money because they are so --

MR. McMANUS: If they have a hardship.

MS. MACRI-ORTIZ: I mean, that is a hardship, by definition.

MS. PETERS: But not in that Hardest Hit fund proposal, it's not defined as a hardship.

MR. SPEARS: No.

MR. McMANUS: We'll go through a waterfall in evaluating what relief they need, and getting them down to that percentage will be one of the considerations.

So as long as they have the qualifying financial hardship, they'll then be put into a formula that will bring them down in payments. So it does fix that issue to the extent allowable by extension of term interest-rate subsidy and buy-down of principal, that combination.

CHAIR CAREY: But it doesn't address the folks who just decided it wasn't worth it?

MR. McMANUS: Those that just walk away and send the keys -- or don't even send the keys --

MS. MACRI-ORTIZ: Usually they don't.

MR. McMANUS: -- that is a challenge.

CHAIR CAREY: Right.

MR. SPEARS: Any other questions then?

(No response)

MR. SPEARS: All right. Then to sum up, with the last slide -- thank you.

We're going to use Hardest Hit funds. As Di told you, this is going to be operational by the end of the September.

This second sub-bullet here, "All CalHFA borrowers with a hardship shall qualify," we should really qualify that word "*qualify.*" They will be candidates.

MS. PETERS: Eligible.

MR. SPEARS: Eligible. Because they were, by definition low- and moderate-income borrowers. If you tack on that they have a hardship, they're eligible for application to the program, not certain that they would be able to be helped.

The one thing that we've tried to do in the last month or so, is to find ways to have faster resolution of borrower delinquencies and defaults.

We're going to see -- you're going to see increased staffing levels in the budget proposal for work-outs, loan modifications, short sales, FHA claims, MI. All this is very labor-intensive.

Somebody told me the other day, "So we're going to spend a whole bunch of money and get absolutely nothing?" Well, I wouldn't say that; but I'd say that we're going to spend a whole a lot of money trying to mitigate losses and keep people in their homes. Those are going to be the objectives.

So we think that loan modifications will go up substantially with Hardest Hit funds. We're going to be more aggressive with short-sales solutions.

We've put into a category, just for an example, people were rejecting our loan modifications when they thought that our surplus, what we considered a surplus on their monthly budget, wasn't nearly enough. And what we've decided is to say, all right, in a zone, we'll give them the benefit of the doubt, if they disagree with our loan-modification calculation and the surplus we've come up with -- and I think it's $500, right?

MR. McMANUS: $500 is our guideline, not published.

MR. SPEARS: Right. But if they have up to a $500 calculated surplus in their monthly budget and they reject the loan modification, we'll consider a short sale.

If it's above that, then we're just going to say, "Look, that's the best we can do, and that's what we've got."

Before, it's been a gray area and wishy-washy, and it just has taken too long. We're going to try to clarify the guidelines and just speed up the resolution. And it may result in some tough love, in some cases. But we're going to try to do as much as we can to help people gracefully exit if we possibly can.

And then finally, REO levels are going to increase, as Chuck said. Those levels are going to go up just because there are a lot of them that are sitting there in the backlog that you saw with the steep graph. And they're just going to have to get resolved some way. And we don't have enough folks on board. And we're also going to look at whatever we can find in the way of economically beneficial outsourcing. We haven't found any yet. We've been looking, but we haven't found any yet, but we're going to try to get that. We're going to try to go from one to two master brokers. We think that will speed things up a bit.

Okay, any questions?

Yes?

CHAIR CAREY: Did I hear earlier that you're going to have sort of a first-look program for the NSP partners?

MR. SPEARS: Yes, yes -- well, we have one drafted up, it's being reviewed by Legal. There's some legal difficulties we have to overcome. But that's what we're trying to go for, is to have something where we can get NSP money to help us get these back out in the communities.

These are going to be really affordable homes. And, unfortunately, the homeowners that are gone, that's an unfortunate story. If we could wrap this up with a good story on the other end, that would be great.

All right, Priority 3, I'll get to -- you know, why don't we bring Gary and Bob and Margaret all up at the same time?

Really where -- if you can hit that button, Gary, I'll get started while you guys are getting settled in.

This is continuing the March discussion. We talked about the products that we were developing. We've continued that, and we're getting these products ready to go out on the single-family side. I think Bob just told me that we've really talked about the risk share with Fannie Mae, the TCAC program, and the MHSA a number of times to the Board. So none of these are surprising.

We mentioned the state income tax credit for first-time home buyers, and we've already mentioned the fact that these are really -- this is, in the single-family side, a period of time where you're going to see a very high affordability index.

So what I'd like for Gary to do is talk about the kind of volume that we might be able to see with these products that we've talked to you guys about before and the down-payment assistance that we have.

We did get a piece of good news, by the way. Department of Finance released a budget letter the other day, and released some budget -- of some bond-funded program money out. And that's what CHDAP is, and that's what the School Facility Fee Program is. So we'll be getting more money into those programs.

So, Gary, why don't you kind of talk about this worst-case/best-case scenario? Explain that a little bit first.

MR. BRAUNSTEIN: Okay. Thanks, Steve.

Hello, Board Members.

This slide is a consolidated-version slide of what you saw already in the board package that were sent to you, that provided to you a fairly comprehensive list of assumptions that I drove these figures off of.

The worst-case scenario and best-case scenario just on total first-mortgage volume, as you can see, worst case, $342 million on first-mortgage volume, $8 million on second-mortgage volume. That is made up by our School Facility Fees and our CHDAP. And the first-mortgages products will be an FHA product that we talked about at the last Board meetings, and the California Housing Finance Agency for Fannie Mae Advantage is the Fannie Mae 100 first-mortgage product that we talked about.

On a best-case scenario, again, the assumptions of having warehouse facilities and perhaps an extension of the NIBP in 2011-2012 can really dictate some of these best-case scenarios.

2010 to 2011 we're looking at around $776 million on first mortgages and $28 million on second mortgages.

For 2011-2012, again, the assumption on having a warehouse facility, some other assumptions that Bruce and his group mentioned earlier today, as well as the consideration of possibly Fannie Mae extending their Affordable Advantage product will drive some of the best-case scenarios that we have in 2011 and 2012.

So that would give us about $855 million in the first mortgage in 2011-2012, and around $33 million in second mortgages, which include our CHDAP and our subordinates.

As Steve had mentioned, School Facility Fees and CHDAP are dictated by the disbursement of available funds. We do have available funds already disbursed on CHDAP, and School Facility Fees is still currently in the works. That's why in the worst-case scenario you see in 2010-2011 the zero in both years.

MR. SPEARS: Obviously, two big points here.

One is we need some warehousing facilities. And we talked to Fannie Mae, a couple other partnerships with private banks about that. If we can't have the ability to process large loans, we're not going to be able to get through the NIBP money.

So that brings me to the second. And we're going to do a full-court press on getting Treasury to extend that program into 2011.

If they don't, our last draw has to be mid-December of this year. That money -- those funds would carry over into the spring of 2011. But we're taking interest-rate risk on bonds. And we're going to be paying interest on those bonds and not have any loans to go with them. So I mean, we'll have invested at Smith, and that's going to be a negative arbitrage situation, so…

MR. BRAUNSTEIN: Again, the last comment, just to finish up. And we've talked about a rate-differential need that we have with availability to the bond market. In 2010-2011 we have a locked-in rate with the NIBP. 2011-2012, my worst-case scenario and best-case scenario, you know, is if our access to funds is limited, we might look at the possibility of volume against a slighter, lesser spread.

In the best-case scenario, all those assumptions are with a full spread, a full-spread assumption.

So in 2011-2012, we'll just revisit where we are and the possibility of a slighter reduction in spread to offset some volume. We'll have a risk-versus-revenue return analysis made.

MR. SPEARS: Right. It makes the rate more competitive.

The only fear, of course, is the fear that Mr. Hudson expressed last time, that one and an eighth isn't enough to really cover the expenses, cover the anticipated losses possible down the road and everything. It's a worry, that's all.

MR. BRAUNSTEIN: Right. That's why we do a risk-revenue analysis.

MR. SPEARS: The only other thing that I want to reemphasize is that all these borrowers, every one of them, will receive education before they get one of our loans going forward.

MR. BRAUNSTEIN: And one added component on the Fannie Mae Advantage program, we are going to impose a borrower early-payment default program that the Agency hasn't had before. So that's slightly new to our lenders and understanding our culture. But we've done a high-level survey of eight of our top lenders that have done the most business with CalHFA, and they show an acceptance to us imposing an early payment default provision.

MS. MACRI-ORTIZ: How does that work?

MR. BRAUNSTEIN: It's structured very simply. If the borrower is 120 days past due within the first four months, then we would trigger an early-payment default provision back to the lender to repurchase the loan.

MS. MACRI-ORTIZ: Oh, for the lender?

MR. BRAUNSTEIN: Yes. Yes, yes, absolutely.

MS. MACRI-ORTIZ: Oh, okay.

MR. BRAUNSTEIN: So we'd impose -- you know, the risk management that we've imposed on perhaps -- you know, on the Fannie Mae product is a component that's new for the Agency. The Agency hasn't had an early-payment default provision buy-back to our lenders.

And so it's going to be a little bit of an education curve for our lenders to digest this nuance to the Agency. But we're certainly -- we're up for the challenge, and we don't think it will be a major problem.

MS. MACRI-ORTIZ: And they'll also scrutinize their customers a little closer.

MR. BRAUNSTEIN: Absolutely. It will be motivation.

CHAIR CAREY: Good risk-sharing.

And just for clarification, on the warehouse line, which is critical to the high volume for new Board members, that's traditionally been a State Fund, right, until the State's financial situation eliminated that as a possibility; right?

MR. SPEARS: Yes.

CHAIR CAREY: So that's why we're having to look elsewhere.

MR. SPEARS: Right. And this summer's prospects are not --

MS. JACOBS: Not good.

MR. SPEARS: -- not good. Right.

So we're not a -- not going to put Katie on the spot and beg and whine and plead because it wouldn't do any good.

CHAIR CAREY: It wouldn't do any good.

MR. SPEARS: Any other questions?

MR. BRAUNSTEIN: I'd just like the Board to go back to the slides that were in your board packages. There's a much more detailed, in-depth review of the assumptions that we're making. And I just want to make sure that we're not just keying on the one piece of the warehouse facility.

MS. MACRI-ORTIZ: Okay, I may have missed this at the last meeting, but can you explain the School Facility Fee money, how you use that?

MR. BRAUNSTEIN: It's a grant for --

MS. MACRI-ORTIZ: Is that for -- is that

available?

MR. BRAUNSTEIN: Yes, it's available to people in the education industry --

MS. MACRI-ORTIZ: Oh, so it's not --

MR. BRAUNSTEIN: -- and it's a grant that --

MR. SPEARS: No, no, no, it's not --

MR. HUGHES: It's a statutory program.

MS. MACRI-ORTIZ: The School Facilities Fee program?

MR. HUGHES: Right, it's a reimbursement of school development fees.

CHAIR CAREY: It really goes -- it goes to the buyer.

MS. MACRI-ORTIZ: So it basically has to be -- it has to be new construction?

CHAIR CAREY: Yes.

MS. MACRI-ORTIZ: Because that goes to the developer --

MS. JACOBS: It goes to the buyer.

MR. HUGHES: No, it goes to the buyer.

CHAIR CAREY: It's support to the buyer. It, in essence, helps the buyer pay the school fees.

MR. HUGHES: It is a statutory program that we administer. It's not one we've created ourselves. The program is outlined in statute.

MS. MACRI-ORTIZ: But the buyer -- well, I guess the buyer pays the school fees through --

MR. SPEARS: When they buy the house. Then this program reimburses --

MS. MACRI-ORTIZ: -- the house price.

MR. SPEARS: Right, right.

Any other questions on the single-family side?

(No response)

MR. SPEARS: If not, Mr. Deaner will press the button magically, and we'll go to the next slide.

MR. DEANER: Certainly.

I'll make this short because we've talked about this a number of times.

MHSA, our program we've been lending on the last couple years, it's got half my staff running with their hair on fire. We anticipate at least another 50 deals. I think we have 30 coming in in the next two weeks that have to get ready for the TCAC application award dates. And then with TCAC, we're -- let me back up a little bit here -- we're doing the consulting role.

With the ARRA funds, that's going extremely well. And we're anticipating anywhere from 80 to 120 projects that we'll work on in the next year.

MR. SPEARS: How many of those have we done so far?

MR. DEANER: We've closed, to date -- we've got about 50 in-house and we've closed about 15. And so we have 35 in the process.

We're taking in about -- probably about ten a week right now. So my other half of the staff is running with not-too-hair-on-fire, on that program.

CHAIR CAREY: How's that working between CalHFA and TCAC?

MR. DEANER: Very well. Very well.

Actually, Bill Pavao did tell me a couple weeks ago when I talked to him, that if the board meeting would have been in Sacramento, he wanted to attend to let the board know how well our two groups, synergy-wise, are working together. Because we're doing a lot of the work from an underwriting standpoint. And then they came to us and actually said, "Hey, we don't have enough to close. Can you guys even close the loans for us?" So we're doing that for them, too.

And what that's done -- at that closing stage, we're working hand in hand with them, to get it done. And we've created a process, an executive summary to make it simplified on both sides that's going very well. Very well.

So that's going to be another at least hundred projects.

I think right front in-house, I have over a hundred projects between the two programs that my staff is working on.

And then the New Issuance Bond Program, we're a conduit issuer only for the credit reasons that we've discussed previously.

We anticipate that anywhere from five to 20 projects, depending on if they can get the credit enhancements through the various sources.

I've really got one loan officer on that with myself, and so the two of us are running that program.

We're hoping to put out $200 million-plus, that's kind of our goal, that's the current pipeline. We'd like to get the full three-forty out. But, again, as a conduit issuer only, we don't have -- we're not the lender, so we don't -- we can't tell if they can get their credit enhancement through Fannie, Freddie, or FHA. But we'll get some of that money out.

We're doing our first escrow break July 15th for about $50 million. And we'll generate about $500,000 off that break for the Agency.

And then we've got a break schedule -- and when I say "escrow break," it's break in the funds to fund the project that are in the pipeline for October 15th.

And then December 15th will be our big date.

We'll probably have well over a hundred million that we'd like to close in that break there.

So between those three programs, we're quite busy.

And I keep arm-twisting Bruce for capital to run my program and lend and hopefully --

MR. GILBERTSON: Thank you, Mr. Deaner.

MR. DEANER: Maybe he'll call "uncle" one of these days.

MR. SPEARS: You've got to give Bob credit for trying. He does keep trying.

MR. DEANER: Yes.

MR. SPEARS: I'd like for Margaret to just comment briefly on all the impact of all this on her. It's fairly substantial, so…

MS. ALVAREZ: Well, just as Bob creates new business here down the line, all those loans bumped to my shop. We already had a lot of loans for the amount of people that we had working on it. And although we haven't made any new loans in the last couple years, the loans that were in the process started closing. So it does -- my portfolio keeps growing.

And we're working very hard to keep on top of that and to manage everything in a way that protects the Agency and keeps the loans safe.

MR. SPEARS: I think we have about 500 properties that Margaret watches over. So if you add everything on this, we'll have more along the lines of 650 to possibly 700 by that time.

So just keep that in mind when you see the personnel allocations in the next agenda item in the budget.

MS. ALVAREZ: We're not exactly making the loans on all those, necessarily. But on the Mental Health Services Act, for instance, we are -- the Asset Management side is overseeing the capitalized operating subsidy, which is the money to make the project's cash flow in their operations.

MR. SPEARS: Any other questions?

(No response)

MR. SPEARS: Excellent.

CHAIR CAREY: Great.

MR. SPEARS: Well, we can -- actually, Gary or Bob, can somebody stay there and press a couple of buttons?

MR. BRAUNSTEIN: Sure.

MR. SPEARS: So we've consolidated Priorities 4 and 5, so that you can see that I think -- go ahead and press that button, Gary -- we're really going to need, as I said before, draw on old partnerships, look for new partnerships, explore new business ideas, maybe even a new role, we're not sure. We're going to really concentrate on this effort over this business plan period.

The first thing we are going to do is seek an extension of the New Issue Bond Program to give Gary more time to get his money out the door and Bob to get more time to get his money out the door.

We will be using an MBS model for Gary's production to limit our risk. But the Mortgage Revenue Bond funding source is going to be dependent on interest-rate movements, spreads, and that sort of thing.

So if you want to get way out there, this would require legislation, but if CalHFA became a direct lender, that's one idea.

The GSEs' role may be changed, as we talked about before. So we just have a lot of exploring to do over the next couple years. And it will really, again, depend on how the global credit markets sort out, our availability to warehouse lines of credit, and the products that we can offer and be competitive with.

And there are many other changes coming in government. We have an election year coming up. That could change things as well. So we have a very interesting couple of years coming up. It will be a challenge. It will be a challenge.

I will say this: That the NCSHA, the national association for housing finance agencies, has had a working group on the future of HFAs. That's the title of it. And we're exploring various roles going forward. And I'm on the board and participating in that process, too. So hopefully, those will be fruitful discussions as well.

Let me ask if there are any questions?

(No response)

MR. SPEARS: If not, we'll go into the budget part of this.

MR. HUGHES: It's an action item. It needs to be passed.

MR. SPEARS: I'm sorry, yes, there is.

Mr. Chairman, the staff recommends adoption of Resolution --

MS. OJIMA: 10-06.

MR. SPEARS: -- 10-06, which would adopt the business plan as presented this morning to the Board.

MS. JACOBS: Move approval.

MS. MACRI-ORTIZ: Second.

MR. GUNNING: Second.

CHAIR CAREY: Okay, we have a motion and a second.

Any further discussion?

(No response)

CHAIR CAREY: Roll call, please.

MS. PETERS: Do you want public comment?

CHAIR CAREY: Thank you.

MS. PETERS: I got your back.

CHAIR CAREY: If there is anyone in the public wishing to comment on this matter, please indicate.

(No response)

CHAIR CAREY: Seeing none, we will have roll call.

MS. OJIMA: Ms. Peters?

MS. PETERS: Aye.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Aye.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz?

MS. ORTIZ: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 10-06 has been approved.

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Item 5. Discussion, recommendation, and possible action regarding the adoption of a resolution approving the Fiscal Year 2010/2011 CalHFA Operating Budget

[Resolution 10-07]

MR. SPEARS: All right, as Mr. Rengstorff brings up the presentation on the operating budget, I hope I didn't tell you to put it under the wrong tab.

MS. JACOBS: You did. That's all right.

MR. SPEARS: I apologize. It should be under Tab 5.

And I've asked Howard Iwata to join us for this presentation.

Howard and Kelly Sacco work with senior staff and put together the proposals.

My view of the operating budget is -- I mean, obviously, this is not like a state-department type budget where we've been given an appropriation.

My view of this is that these are the numbers that go with the business plan that you just saw. Obviously, and in most cases, this is true of any state department or business operation, a large degree of the expenditures are related to personnel costs. And so a lot of this discussion centers around that.

Let's go to the first slide, Howard.

So the overview is that the proposed budget is $48.3 million. It's not very much more than the budget that was adopted last year. However, the budget adopted last year had a number of assumptions in it, including ramping up -- filling vacancies, and that sort of thing. And instead of doing that, we actually ran with more vacancies last year.

So the bottom line is, I think you approved a budget of about forty-seven and a half million last year and we spent about forty, roughly. And you can see that from this chart we're coming up to.

So in my estimation and what I'm trying to present here is, I think we ought to talk about how much more we're spending than we actually spent last year, and that will probably make more sense for the discussion. It's 19 percent more than what Howard is projecting that we will spend by the end of June 30.

The planning scenarios, we have two. But no matter what we do next year, we're going to go after loss mitigation with every effort that we can. The same thing: Workouts, loan mods, short sales, REO management, foreclosures. It's very, very labor-intensive.

In Scenario 1, we'll see a very modest amount of lending. And as we said, that's going to be dependent on how much we get in the way of credit lines.

In Scenario 2, we'll have a higher degree of lending, greater success in obtaining warehouse lines of credit.

Now, what we're going to see is that we're going to be asking to be fully staffed up with all 311 positions that we have authorized by the Department of Personnel and administration.

If we get to Scenario 2 and we have a very high degree of success in the lending area, what that's going to mean is, we're going to have to use more temporary help on top of those authorized positions, because we'll be doing everything in the baseline activities plus lots of lending. It will be more activity than this agency has seen for a very long time. And here again, it's because we're trying to work off the backlog of delinquent loans.

So let's go to the next slide.

Personnel services account for 64 percent. Not surprised there.

We are operating at either 35 or 40, I can never remember which --

MR. IWATA: About 35.

MR. SPEARS: -- vacancies at this point.

And the objective here is to fill those vacancies and put them towards these efforts that we've talked about.

We had no idea what to assume on the furlough front. Furloughs are due to expire at the end of June. So we took them out, and they assumed that there are no furlough savings.

Other cost increases, strategic projects were put behind last year because we shifted personnel to deal with some other issues, including loss mitigation efforts. We're going to return schedule, that's an increase of $3 million over the last year. But we will be finishing up, as we'll talk about later, some major projects, including in the spring of 2011 Gary's loan origination system. That will be new.

Then the other thing is that we get charged overhead from the State of California for things they do for us. And they have seen fit to increase our invoice by $600,000. And I plan on protesting that vigorously and will get absolutely nowhere, so…

MS. PETERS: Good luck with that.

MR. SHINE: $600,000 over what?

MR. SPEARS: It was -- to answer your question, Mr. Shine, it was about $1.7 million last year, and it will be --

MR. SHINE: A 33 and a third percent increase?

MR. SPEARS: Yes, sir.

Like I said, I will be protesting vigorously.

MS. MACRI-ORTIZ: What is that for? I mean, what kinds of services do you get?

MR. SPEARS: Let me let Howard answer that.

MR. IWATA: That's for the Department of Finance, the administrative costs for State Treasury --

MR. SPEARS: The Controller's office.

MR. IWATA: -- Controller's office --

MR. SPEARS: Processing our payroll checks.

MR. IWATA: -- our payroll.

And then so just a general overview of our budget, Finance reviews it, and then puts it and publishes it.

And then throughout the State, now they're going to this new fiscal program which really we're not part of. But sometimes they --

MS. MACRI-ORTIZ: But you've got to pay for it?

MR. IWATA: Sometimes, yes.

MR. SPEARS: We get a bill.

MR. SHINE: Without an editorial, it sounds like a lot.

MR. SPEARS: Understood.

I mean, to pay our bills, which go through the normal process, it involves the Department of Finance, the Controller's office, and the Treasurer's office because it's a warrant system, that warrants are drawn by the Controller's office and presented to banks, and the Treasurer's office takes care of that. So it involves everybody.

MS. CARROLL: I would say, however, the Treasurer's office has had budget cuts, just so you know.

MR. SPEARS: Maybe it's time to move to the next slide.

We do have some -- we need to back up one.

We do have some cost reductions. Most of them relate to the lease on the new building. We're getting ten months of free rent. It's a cheaper rate overall. But we also have some reductions in general expense and travel, consulting, professional, there's I.T. equipment costs. We just tried to find little savings in every place that we can.

But the -- let's go to the next slide and just take a summary of everything -- which you can't see. You're going to have to refer to your -- I tried to back this little table up here as far as I could.

But you can see again, what we've done is, in the top right-hand corner for personnel services, for salary and wages, that $22.5 million is for 311 positions.

I asked Howard to go back -- and we were going to just present that total number, but I'd doubt it if Howard could get 35 people hired in the civil service system between now and July the 1st. And he doubted that. And we would have some vacancies. So we programmed in a million dollars off that just because you're going to take a while to staff up and everything.

We're going to use less temporary help. You can see a little more in the "overtime" category.

And again, we're going to use some limited-term positions. In the civil service system, you have full-time permanent and you can have full-time limited term. And so what we're thinking about doing is bringing folks on to help with the backlog. And once the work goes away, then the terms expire, and that's the current plan.

The one thing I want to point out is down at the bottom there's a new item for the Hardest Hit funds. Part of the Hardest Hit funds are going to be paid for out of the nonprofit organization that Treasuries has required us to set up to receive the money. For consultants and that sort of thing, we can pay for it out of Treasury funds. But for a lot of the things -- Di's time, employee time that have to be in the civil service system, we'll get reimbursed with Treasury funds from that.

And so we anticipate that this year, that will be about a million dollars. 985,000. I think that might be a little low, but that's our best estimate at this point.

Here again, we don't really know what the program looks like because Treasury hasn't approved it yet, but that's an estimate of that.

Any questions so far?

(No response)

MR. SPEARS: Well, let's go to the next slide.

We already talked about this. Most of these hires are going to be for -- in fact, if you'll just go to the next slide and go to the next page in your binders, you'll see where the hires are, really.

In Fiscal Services, there are seven more people there. And that's back-office operations for a lot of what Chuck does, REO management in loss mitigation.

In Loan Servicing, 12 more people there to help Rhonda to take care of the backlog there.

Over on Homeownership, because we're going to have lending, we're going to bring people back in there that have been reassigned, and we're going to have more people there to do the lending we planned.

But in Portfolio Management, that's Chuck's REO management group, there are six more people there.

And then finally, in Margaret's group, because we need to staff up for her, she's been operating shorthanded for a while, on the far right, that's four positions there.

So if you add up the numbers on top of all the yellow -- light-yellow boxes, that all adds up to 311. I tested it out with the trusty HP-12c, right here, and those are all the positions that the Department of Personnel Administration has authorized us to run.

I don't anticipate running at that once we get the backlog worked off. But over the next two years, that's Priority 2.

Any questions on that?

(No response)

MR. SPEARS: If not, let's take a look at the next slide.

Again, we were not going to try to guess at what happens on the furlough side of things. They end on June 30. There are State budget considerations, I understand that.

I have an appointment with the DPA director to ask about how this is all going to work out, because you'll be adopting a budget today. They're not going to be adopting a budget at the State for a very long time. In the meantime, we will be operating on this budget.

Now, here's one thing. There is a lot of litigation right now about the furloughs. We are the subject of that. I am, according to Mr. Hughes, the most sued executive director ever of CalHFA.

MS. PETERS: And you've only been on the job a week and a half.

MR. SPEARS: So I'm just rolling up the whole last year, the current resumé.

The remedies in these cases are back pay. If a back-pay remedy for that litigation were to occur in the next budget, it is not in this budget. And the number is $4.5 million. It was about $3.5 million or so for the fiscal year last year.

But remember, furloughs started in February. So if you add all that up, plus interest, would be the remedy that we would pay if that's the result of the litigation.

Now, personally -- I've consulted with our general counsel and others, and we don't think that the litigation will be resolved within the next year or so -- within the next two years.

It's got to go to the appellate court. It's got to go to the Supreme Court probably, so... But I think it's a long time coming. But I need for you to have this number in the back of your heads because it's a possibility, just so you know.

We do have some extra training costs budgeted in to train new hires. A lot of these folks -- you saw we're going to hire 12 people in Loan Servicing -- they've got to know -- they've got to get to know our loan-servicing system, our methodologies, our mission. And that's going to take a little while.

We have talked before at this board about outsourcing rather than doing these new hires, and these were the considerations. We're always exploring ways to save costs. We are exploring proposals, and we've received a number of proposals, to do what we do with an outside contractor.

I haven't seen one yet that has been really economically beneficial, but I will keep looking.

There are some mission considerations. I'm not certain that I want to just outsource loan modifications. I don't think they have the same idea that we do about our mission.

And the other is, it's a bargaining issue. Unless you're hiring technical expertise that we don't hire inside or it exceeds all abilities to fill these positions, it becomes an issue at the bargaining table.

There is also an issue, with increasing retirements, increasing our salary, we will be increasing retirement costs down the road.

I will remind you that I think it was at the January 2009 Board meeting -- remember, there was an issue about the budget and fixing it in the middle because we got a new rate in the middle of the year from the Department of Finance?

I'm sorry, poor Fred, we're talking about him and he's not here.

That rate, I think, stays the same for this next year.

Is that right, Howard?

MR. IWATA: *(Nodding head.)*

MR. SPEARS: So that's not going to change; but the base, the calculation base will go up, so that will cost a little bit more.

Any questions about those before we go to the strategic projects?

(No response)

MR. SPEARS: Let's go to the next slide,

Howard.

I'm not saying we're to the end of the strategic project, but we're getting through a lot of major projects.

We finished a very big phase of the Fiscal Services system and took our accounting system off an old, decrepit platform that was giving us a huge number of problems. I know Lori is happy about this.

The next phase of that, though, is to get new accounting software that's Windows-based, and that will give us not only faster process and more timely information, but better information. A way to get the kind of management information that I think that we need going forward. And so we're going to move right into the next phase of that, and we'll show you the cost of that.

But the Homeownership Division's loan automation system, we're spending a lot of money on that this year and next year. But it's going to be done and implemented next spring, a year from now. So we think this will be a very big thing.

The document management is a shorthand way of saying -- or a longhand way of saying, we're trying to go as paperless as we can. Save money. And document costs in storage fees, not to mention the green aspect of this.

So the debt-management tool is already

finished. That's done. We've spent a lot of money on that this year, not relative to some of the other bigger systems.

And then the Sacramento office consolidation will be done. We'll give you a quick update on that. But I signed a lease yesterday. It's going to start October the 1st. So that should be all taken care of.

One of the things that we just can't estimate is the efficiencies that we're going to get by being from one floor to the other, as opposed to down the street and scattered all over the Senator Building.

I know this, that Rhonda Barrow tells me that within two weeks' time, with everybody on one floor, right in front of her and with the hiring and the management area that we've given her, in, I'll say less than a month's time, she was already beginning to hit due dates that she had not hit before, and was able to let temporary help go because she was getting caught up. It happened that fast.

So I think there are real benefits though I haven't tried to quantify it. I just don't know how to do that. But I think that's a great -- that will be a great benefit of being all together in the same building.

So the last slide, I think, almost, is these are the costs.

I've put this up every year for, like, three or four years now. Just to let you know, this is substantial investment in the future of the Agency. The Fiscal Services system is going to spend a lot of money in '11-12 trying to finish this up and get this new software on board.

And you'll see the costs go away for Homeownership. Multifamily is done. Document management is done. Debt management is done. Business continuity management, all done. And then we'll get the new building done in '10-11.

So that's a substantial investment, I realize; but I think it's very, very important to the future of the Agency.

So in summary, before I ask for another resolution, these budget increases represent the need to increase efforts, keep borrowers in their homes, and to meet loss-mitigation challenges. The strategic projects, as we just said, represent investment in the long-term viability of the Agency.

So, Mr. Chairman, with that, I'll entertain any questions. But if there are none, staff recommends that the Board approve Resolution 10-07.

MR. SHINE: I'll move.

MS. JACOBS: I'll second it.

I do have a comment. I think that you did a great job with this budget. It's got some diet pills in it as well as expansion, so that's great.

And I would assume that should the State budget have an impact on this budget, you will bring a revised budget back to the Board.

MR. SPEARS: Yes, we will.

MS. JACOBS: Okay.

CHAIR CAREY: Further comments? Questions?

MS. MACRI-ORTIZ: I just have a question in terms of your temporary and…

Does the State have a pool where you can draw temporary workers? Or how do you get temporary workers?

MR. SPEARS: Normally, from an outside temp agency. And what we've used them for have been in the technical areas of loan servicing, which the State doesn't have anything like that.

To my knowledge -- correct me if I'm wrong, Howard -- there is not a place where we can just go and hire somebody from the State for temporary.

If you get an employee -- and what I'm getting to is, there are developing pools of employees that have been laid off from other State -- they call them "surplus list/SROA list." But those are employees that are looking for permanent employment places. It's not a temporary temp pool. So we get them from outside agencies. But the main reason we go to those agencies is because they have expertise that we need.

MR. IWATA: What we did this year was, in order to hire people on to the State service, they need to have a civil service exam. And a lot of the workload that was happening this fiscal year, we didn't have the appropriate exams in place. So to make a quick fix for our workload, we hired outside temps. And then we have a temporary help budget that we stay within.

And then with that, as we hold the exams and have people eligible to be coming into the State, we can hire them either as limited-term, on a one-year term, based on the workload; and then they would get some of the civil-service status.

And then if the workload continues, we can extend it for another year or make it perm, if we want to.

So what we're trying to do is use the exam process. In that way, we're training the employees to the civil-service process. And then with CalHFA, then if they turn out to be good workers or we have additional workload, we can make them permanent.

Right now, with temps, we can't make them permanent. Once they're there, and then we have to let them go.

CHAIR CAREY: Other questions? Comments?

Yes?

MS. JACOBS: I'd just like to make a quick comment.

One of the sources that we use for temporary help is, there's a pool of retired annuitants, and that's a good way to get experienced people that are temporary, if you can use them 50 percent time.

MR. SPEARS: There are several "retired" CalHFA employees who have come back to help out.

They have been very helpful, because they have the institutional knowledge.

MS. JACOBS: That's fabulous.

MR. SPEARS: Jeannie Stribling is one. There are some others, and they've just been really helpful.

CHAIR CAREY: Even some retired HCD employees.

MR. SPEARS: Yes. That's right, Rich Friedman.

CHAIR CAREY: Any further questions for the Board?

(No response)

CHAIR CAREY: We would now, if there's any public comment on this action item, we would hear that at this point.

(No response)

CHAIR CAREY: Seeing none, we'll take a roll call.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 10-07 has been approved.

CHAIR CAREY: Great.

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Item 6. Report on the Sacramento office consolidation

CHAIR CAREY: Next up, the report on the

Sacramento office consolidation. Done deal.

MR. SPEARS: I guess we've mentioned this a couple times. The details of the lease got worked out in the last week. I can report that it's signed.

We moved the date a bit. One of the problems is a practical problem. The final fire marshal sign-off is right in the middle of fire season. And you have to have the city and the state fire marshal sign off because it's a state lease. And the state fire marshal won't guarantee that, you know, they will be available.

So it is just a little bit of a glitch. That, plus we really pushed their construction schedule. We moved from September 1 to October 1. But the building owner, as a matter of pride, is going to do everything they can to get us in by September 1st, which, of course, will start the running of the free rent, but that will be good.

So we've already started a communication plan with employees, where we put up a Web site section on the building.

We have worked out floor plans -- I'll tell you this: With 311 employees, it's going to be a very tight fit. And some of these employees -- obviously, some of them are already across in West Sac in the Loan Servicing area. We'll probably have to put some of those limited-terms and hires in that space over there just to make things fit.

It's a long-term lease. It's a 13-year-and-something-month lease. And, obviously, we don't anticipate having this backlog and delinquencies for 13 years. It's just not going to happen, so…

MS. MACRI-ORTIZ: There isn't going to be any growth, either; huh?

MR. SPEARS: Well, we have the ability to increase that space in the first years, and we also have the ability to give up space in the first few years. So we left ourselves --

MS. MACRI-ORTIZ: Open?

MR. SPEARS: -- open.

I don't want to use the word "hedge," really.

MS. JACOBS: Mr. Chair, I have to excuse myself. I have to speak at another board meeting.

CHAIR CAREY: Thank you very much.

I might mention that some of us have the opportunity to join Ms. Jacobs tomorrow when she is honored at the California Housing Consortium.

MS. JACOBS: Thank you.

(Applause)

MS. PETERS: Mr. Chair, I have to excuse myself for a conference call.

CHAIR CAREY: Okay, well, let's move through the rest of the agenda then.

MS. PETERS: With the Governor's office.

CHAIR CAREY: Check on that warehouse line, would you?

MR. SPEARS: I did want to say this -- and before Lynn leaves the room -- the Chair asked for a memo on the Agency's prepayment policy. It's in the materials. I just want everybody to -- duly note it.

We do have a pilot program that we're putting in place. So on the report section, I just did want to mention that.

MS. JACOBS: Okay.

(Ms. Jacobs and Ms. Peters left the meeting room for the day.)

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Item 7. Reports

CHAIR CAREY: Are there items which you want to refer to specifically in the reports or --

MR. SPEARS: Many of these reports are standard.

Bruce, I'm not sure if you want to mention any particular items on the report section.

MR. GILBERTSON: I can respond to any questions. There's four reports in there.

MR. SPEARS: Right.

CHAIR CAREY: Are there any questions on any -- is there anything we should know specifically about that?

MR. GILBERTSON: Well, let me just go through a couple of items.

There are two things, clearly, that you have heard about and the reports have happened now, so we wrote reports.

One was the Citi loan sale. Tim mentioned that earlier. So we took just short of $100 million of multifamily loans, and effectively refinanced them with loans from Citibank. They need this for CRA credit. It works for us. It monetized assets. That was a good thing.

The other thing is we took some of our FHA single-family loans. First, we securitized them, created Ginnie Mae securities, and then we were able to go to the marketplace and sell those for a premium. So we sold them for 1.05 or 1.04 on average. So we made a four-point premium.

We're in the process of utilizing that for a variety of purposes, including debt reduction. And there are some strategies whereby we may be able to actually buy back some of our bonds at a discount.

So we sold at a premium, buy back debt at a discount. It's a win-win all the way around. We'll report to the Board on that once we get through the end of that. That's something that will happen in June or July.

CHAIR CAREY: Good.

MS. MACRI-ORTIZ: I have just one question on this, the securitization, that's the one you're dealing with.

What's a buy-down loan? It says you can't contain any buy-down loans.

MR. GILBERTSON: See, those are programs where builders provide buy-down capital, so the borrower gets a rate reduction over time. So there's buy-downs embedded in it. And the servicer holds them, and apply a portion of that to reduce the interest rate for the borrower for a period of time.

CHAIR CAREY: Other questions? Comments?

(No response)

CHAIR CAREY: Thanks, Bruce.

MR. GILBERTSON: Uh-huh.

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Item 8. Discussion of other Board matters

CHAIR CAREY: Other items?

(No response)

CHAIR CAREY: Seeing none, with that, we will take a moment for public testimony.

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Item 9. Public Testimony

CHAIR CAREY: If there's anyone in the audience who would like to address the Board on any general matters, feel free to step forward.

(No response)

CHAIR CAREY: Seeing none, we are adjourned.

(Gavel sounded.)

(The meeting concluded at 12:58 p.m.)

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REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 27th day of May 2010.

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter